

2.4 Price Indices and Inflation

Name: _____ Class: _____ Date: _____

Total: 10 marks

KEY WORDS inflation 通货膨胀 • price index 价格指数 • disinflation 通胀放缓 • deflation 通货紧缩
 • consumer price index (cpi) 消费者价格指数

Objective

Build the skills to answer exam questions on **price indices and inflation**.

You must be able to:

- define **inflation** 通货膨胀, **deflation** 通货紧缩, and **disinflation** 通胀放缓
- explain how the **Consumer Price Index (CPI)** 消费者价格指数 is built from a fixed basket
- calculate the **inflation rate** as the percentage change in a price index
- compute a price index with
$$\text{index} = \frac{\text{cost now}}{\text{cost in base year}} \times 100$$

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ The CPI

Track the cost of a **fixed basket** of goods:
$$\text{CPI} = \frac{\text{cost of basket now}}{\text{cost in base year}} \times 100.$$
 The base year has $\text{CPI} = 100$.

■ The inflation rate

The **percentage change** in the index between two periods:

$$\text{inflation rate} = \frac{\text{new index} - \text{old index}}{\text{old index}} \times 100.$$

■ The three terms

Inflation = rising prices; **deflation** = falling prices; **disinflation** = inflation that is still positive but **slowing**.

2 Practice

2.1 Define inflation. [1]

2.2 A basket costs \$250 now and \$200 in the base year. Find the CPI. [2]

2.3 The CPI rises from 120 to 126. Find the inflation rate. [2]

3 Exam-style questions

3.1 The CPI is based on [1]

- **A** every good in the economy
 - **B** a fixed basket of goods
 - **C** food only
 - **D** exports
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3.2 Disinflation means that [1]

- **A** prices are falling
 - **B** inflation is slowing but still positive
 - **C** prices are rising very fast
 - **D** there is no inflation at all
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3.3 A basket cost \$400 in 2020 (the base year) and \$460 in 2024.

(a) Find the 2024 CPI. [2]

(b) State the total percentage rise in prices.

[1]

Solutions

2.1 a sustained rise in the general price level.

2.2 $\text{CPI} = \frac{250}{200} \times 100 = 125.$

2.3 $\frac{126 - 120}{120} \times 100 = 5\%.$

3.1 B.

3.2 B.

3.3 (a) $\text{CPI} = \frac{460}{400} \times 100 = 115.$ (b) 15%.