

AP Macroeconomics
Unit 2, Objectives 5-7
Inflation (Chapter 24)

Directions: Answer the questions below in your notebook.

1. Create a table that includes the following information and follow the directions afterward.

Consumers buy 3 footballs and 4 basketballs in a given year.

Footballs cost \$10 in year 1, \$12 in year 2, & \$14 in year 3.

Basketballs cost \$12 in year 1, \$15 in year 2, & \$18 in year 3.

- a) Compute the cost of the basket in years 1-3.
 - b) Compute the CPI for each year.
 - c) Compute the rate of inflation for years 2 & 3.
2. Explain why each of the following price changes would affect the CPI, the GDP Deflator, both, or neither.
- a) The price of cars manufactured in Japan increases.
 - b) The price of a gallon of milk decreases.
 - c) The price of army tanks increases.
 - d) The price of used cars falls.
 - e) The price of Honda cars produced in the US rises.
3. The minimum wage was \$3.35 per hour when I got my first job in 1987. Using the current minimum wage, a 1987 CPI of 113, and a current CPI of 232, figure out the following.
- a) The value, in today's dollars, of the wages I earned back then.
 - b) Was I paid more or less, in today's dollars, than someone earning minimum wage today?