

Candy Consumer Price Index (CaCPI)

For each of the seven periods listed below you have \$0.30 in credit to spend how you choose on any combination of the candies listed. The prices of the candies vary from period to period. Make your choices with regard to these prices, *spending no more or less than thirty cents in each period*. You should assume that the Snickers bars are not actually invented until Period 5. Please make your choices for all seven periods before the beginning of class.

Base Period		
Candy	Price	Amount of Candy
Kisses	5 cents	
Reeses	5 cents	
Lifesavers	5 cents	

		Period 1		Period 2	
Candy	Price	Amount	Price	Amount	
Kisses	5 cents		5 cents		
Reeses	10 cents		5 cents		
Lifesavers	5 cents		10 cents		

		Period 3		Period 4	
Candy	Price	Amount	Price	Amount	
Kisses	10 cents		10 cents		
Reeses	5 cents		5 cents		
Lifesavers	5 cents		10 cents		

		Period 5		Period 6	
Candy	Price	Amount	Price	Amount	
Kisses	5 cents		10 cents		
Reeses	10 cents		10 cents		
Lifesavers	10 cents		5 cents		

We will now determine as a class what amounts of candy a typical student bought in the base period. We use the term “basket” to refer to these base period amounts purchased by the typical consumer.

Basket (from Base Period)		
Candy	Price	Amount of Candy
Kisses	5 cents	
Reeses	5 cents	
Lifesavers	5 cents	

The cost of the basket in the base period is
 (# of Kisses x 5 cents) + (# of Reeses x 5 cents) + (# of Lifesavers x 5 cents)

Cost of the Basket in the Base Period = _____

You will now calculate the Candy Price Index (CaPI) for each of the periods in the experiment. You calculate the CaPI by taking the cost of the basket in the current period, dividing by the cost of the basket in the base period, and then multiplying by 100. (Remember to use only the amounts from the base period basket in your calculations, and not the amounts from your particular purchases!)

CaPI in the base period = _____ x 100 = _____

CaPI in Period 1 = _____ x 100 = _____

CaPI in Period 2 = _____ x 100 = _____

CaPI in Period 3 = _____ x 100 = _____

CaPI in Period 4 = _____ x 100 = _____

CaPI in Period 5 = _____ x 100 = _____

CaPI in Period 6 = _____ x 100 = _____

You will now calculate inflation rates. To determine the inflation rate between one period and the next, you calculate the percentage change in the CaPI. A percentage change is the new value minus the old value divided by the old value. As a hypothetical example, suppose the CaPI increases from 120 in Period 3 to 150 in Period 4. Then, you would find the inflation rate between Periods 3 and 4 by taking $(150-120)/120$, which equals 0.25. Thus, prices rose on average by 25 percent in this example.

Inflation Rate Between Base Period and Period 1 = _____

Inflation Rate Between Period 1 and Period 2 = _____

Inflation Rate Between Period 2 and Period 3 = _____

Inflation Rate Between Period 3 and Period 4 = _____

Inflation Rate Between Period 4 and Period 5 = _____

Inflation Rate Between Period 5 and Period 6 = _____