

Math 29
Homework 7

Write a 1-3 sentence summary of what we did in class the previous period.

1. The Consumer Price Index (CPI) measures the current price of a typical basket of goods and services consumed in the US compared with the price of the same basket in the base-year period of 1982-84. The index is scaled so that the CPI in 1982-84 was, on average, equal to 100. The CPI in April 2014 was 237.1.
 - (a) Calculate how much prices rose from 1982-84 to April 2014 in percentage terms as measured by the CPI.
 - (b) The CPI in March 2014 was 236.3. Calculate how much prices rose in percentage terms between March 2014 and April 2014 (as measured by the CPI).
2. If we want to compare wages today to wages at some point in the past we have to adjust for inflation. Economists do this by dividing by the CPI over 100. We use the term *nominal wages* to refer to wages in current dollars and we use the term *real wages* to refer to inflation-adjusted wages. For example, in April 2014, the average nominal wage was \$24.31 and the CPI was 237.1. So the real or inflation-adjusted wage in April 2014 was

$$\frac{\$24.31}{\frac{237.1}{100}} = \$10.25$$

If the average nominal wage in April 2013 was \$23.86 and the CPI in April 2013 was 232.5, what was the percentage change in the real wage between April 2013 and April 2014?

In Section 6.1, do problems 15, 16; in Section 6.2, do problem 7; and in Section 6.4, do problem 3. Be sure to show all of the steps of your work.