

Learning Objectives

Chapter 24

In this chapter you will

- Learn how the consumer price index (CPI) is constructed
- Consider why the CPI is an imperfect measure of the cost of living
- Compare the CPI and the GDP deflator as measures of the overall price level
- See how to use a price index to compare dollar amounts from different times
- Learn the distinction between real and nominal interest rates

You should be able to

- List the five steps necessary to calculate the inflation rate
- Discuss three reasons why the CPI may be biased
- Describe two differences between the CPI and GDP deflator
- Convert a value measured in 1965 pounds (or euros) to its value measured in 1990 pounds (or euros)
- Explain the relationship between the real interest rate, the nominal interest rate, and the inflation rate