Short Answer Questions
Chapter 24.

1. Outline how the consumer prices index (CPI) is calculated.

2. In year 5, the annual CPI of a country is recorded as 3.5 per cent. In year 6 the annual CPI is recorded as 2.7 per cent. Is it true that prices have fallen?

3. Why is it important that national statistics authorities regularly monitor and change the basket of goods used to measure the CPI?

4. Using an example, explain the meaning of the term ‘substitution bias’.

5. In the UK the Office for National Statistics (ONS) published a personal inflation calculator in response to criticisms that the CPI was not representative of the average consumer’s exposure to price changes. What does this tell you about the problems that the authorities face in measuring inflation and its effect on households?

6. What are the main components of GDP. Do some research using national statistics offices to find out the approximate size of each component in the country in which you are studying.

7. Explain the difference between the CPI and the retail prices index (RPI). Which of these do you think is the better measure of inflation and why?

8. A university lecturer was paid €350 a year in 1900 and receive an average salary of €55 000 in 2011. If the price level in 1900 was 8.5 in 1900 and 790.5 in 2011, show whether lecturers are better off today than in 1900.

9. It is often argued that sections of society, such as pensioners, that rely on state benefits should get index linked increases in their benefit payments. Explain why and comment on whether you think such indexation is justified.

10. Explain the difference between real and nominal interest rates. Can interest rates ever be negative? Explain.

ISBN 978-1-84480-870-0