1. (Consumer Price Index) Calculate a new consumer price index for the data in the following exhibit. Assume that current-year prices of Twinkies, fuel oil, and cable TV are $0.95/package, $1.25/gallon, and $15.00/month, respectively. Calculate the current year’s cost on the market basket and the value of the current year’s price index. What is the year’s percentage change in the price level compared to the base year?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) | (5) |
| Product | Quantity in Market Basket | Price in Base Year | Cost of Basket in Base Year | Price in Current Year | Cost of Basket in Current Year |
|  |  | (3) – (1) – (2) |  |  | (5) – (1) – (4) |
| Twinkies | 365 packages | $0.89/package | $324.85 | $0.79 | $288.35 |
| Fuel Oil | 500 gallons | 1.00/gallon | $500.00 | $1.50 | $750.00 |
| Cable TV | 12 months | $30/month | $360.00 | $30.00 | $360.00 |
|  |  |  | $1,184.50 |  | $1,398.35 |

References:

McEachern, W.A. (2015). *Principles of Macroeconomics*. Stamford, CT: Cengage Learning.