Answer on Question #81858 - Economics- Macroeconomics

Year	One Bag of Rice	One Soft Drink	A Loaf of Bread	Total Cost of Bundle
2016	5,00	8,00	3,00	**16,00**
2017	5,50	8,50	3,00	**17,00**
2018	6,00	8,50	3,00	**17,50**

Question:
If we select two bags of rice,
(a) obtain the total cost of bundle in each period and the price index for 2017 and 2018 respectively taken 2016 as the base year.
Solution:
the total cost of bundle is:

Year	Two Bag of Rice	One Soft Drink	A Loaf of Bread	Total Cost of Bundle
2016	10,00	8,00	3,00	**21,00**
2017	11,00	8,50	3,00	**22,50**
2018	12,00	8,50	3,00	**23,50**

(total cost of bundle $_{2017}$/total cost of bundle$_{2017}$ in prices of 2016), i.e: (2*5,50+1*8,50+1*3)/(2*5,00+1*8,00+1*3,00)
(total cost of bundle $_{2018}$/total cost of bundle$_{2018}$ in prices of 2016), i.e: (2*6,0+1*8,50+1*3)/(2*5,00+1*8,00+1*3,00)

Answer:
price index is:

for 2017	**1,0714**
for 2018	**1,1190**

Question:
Obtain the inflation rate for 2017 and 2018.
Solution:
((price index$_{2017}$-price index$_{2016}$)/price index $_{2016}$)*100% , i.e: (1,0714-1)/1*100)
((price index$_{2018}$-price index$_{2016}$)/price index $_{2016}$)*100%, i.e: (1,1190-1/1*100)

Notes: [price index $_{2016}$ = 1 because $_{2016}$ is base year]
Answer:
the inflation rate is:

for 2017	**7,14 %**
for 2018	**11,9%**

2. Question:
Suppose consumers change their consumption patterns over time in response to relative price changes, what implication does this have for the computation of price index?
Answer: To calculate the price index, we use the formula for the ratio of the consumer basket of the current year in prices of the base year to the consumer basket of the base year in basic prices (See examples of price index calculation above).