ECO 102: Introduction to Macroeconomics
Problem Set #1
Lectures 1 & 2
Due Date: 10 July, 11am
Total Points: 30

Problem 1: The CPI and GDP Deflator [21 Points]

Suppose that we are in a small, local economy that produces four goods. They are: (i) Food, (ii) Water, (iii) Shelter, and (iv) Cars. The prices for reach of these goods from 2005-2009 are:

Good	2005 Price	2006 Price	2007 Price	2008 Price	2009 Price
Food	10	12	14	15	16
Water	2	2	1.50	1.50	2
Shelter	2,000	2,500	2,200	1,800	1,800
Cars	15,000	15,000	16,000	17,000	17,000

Suppose that the local government wants to start constructing a Consumer Price Index (CPI) and chooses 2005 as the base year. They set a fixed basket of consumer goods as: