

NAMES _____

Hand this in as part of your assignment for this week (due Sept. 18).

PRICES PROJECT

For this project, you will develop a Student Price Index, based on items that are most consumed by students. For now, select a basket and find the prices for each item in your basket. You should have between 8 and 10 items in your basket. Select quantities based on how much is purchased in one month. Later in November I will ask you to re-price your basket, calculate the CPI and inflation rate, and consider the issues involved in constructing a useful index. Take care in constructing your basket, as the prices project is worth 100 points. This part of the project is worth 25 points.

ITEM	QUANTITY (per month)	PRICE	COST	Source of price data (store or business from which you got the price)

Total cost of your basket: _____

On the reverse side of this sheet address the following:

- A) Justify your choice of a basket (both items and quantities). Why did you choose the items and quantities you did?
- B) How does your student price index differ from the CPI?
- C) Why might it be a better reflection of the cost of living for students than is the CPI?
- D) Does this mean there is more than one inflation rate?

PRICES PROJECT

Attached please find your graded first part of the prices project. This first grade is out of a possible 25 points. The full assignment is worth 100 points.

You can regain most of the points you lost (if any) by addressing my comments when you turn in your final project. Recalculating quantities is easy and can wait until you hand in the final assignment. However, if you failed to choose specific items and a new sheet was attached to your assignment, you will need to correct your basket as soon as possible.

The second part of the assignment is due on Tuesday, Nov. 27. Note that you will need to turn in the graded first part of the assignment. DON T LOSE IT!!!! Groups should hand in one project.

Hand in a double-spaced typed report that includes the following (make it as long or short--as necessary):

- 1) A table that shows your original basket, September prices and prices collected at any time between Oct. 15 and Nov. 15. Note the date on which you record the Oct-Nov price. You should return to the same location at which you recorded the first price.
- 2) A discussion of difficulties if any--in collecting price information the second time around, and how you resolved them.
- 3) A discussion of price changes or non-changes. For any price changes, suggest what may have happened to supply or demand during the period. Provide a graph of the market for the good, showing supply and demand curves and how they might have changed. For those items with no price changes, suggest why no change occurred.
- 4) Calculations that show your total cost in both periods, the Student Price Index (SPI) in both periods, and the rate of inflation between periods.
- 5) A comparison of your SPI with the CPI. On the web, go to <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt>
The last row of this table reports the monthly CPI for this year. Use the September CPI (due to be released on Oct. 19) and the October CPI (due to be released on Nov. 16) to calculate inflation from the CPI for the period covered by this exercise. Discuss how the inflation from your SPI compares with the CPI and suggest explanations for the similarity or difference (depending on what you find).
- 6) A discussion of the following: Were substitution, quality changes and the introduction of new goods problematic for your SPI? Were your spending patterns pretty much the same from the beginning to the end of the semester? Why are these issues important?
- 7) A discussion of the following: Has the aftermath of the terrorist attack on September 11 changed your spending patterns or plans? Why is consumer confidence so important to the economy as a whole? How might inflation be affected by reduced consumer confidence?
- 8) Staple the first part of the project (attached) to your report. Correct the first part of your project (or explain how you corrected your basket) as the last part of your typed report.

