

## Lesson 4.4 – Understanding Indices



**Goal:** Interpret and use price indices to solve problems

**Price Indices** help citizens, businesses and industries follow and \_\_\_\_\_ in prices.

A **price index** describes the price of an item compared to a \_\_\_\_\_ measured at a particular time or in a particular place.

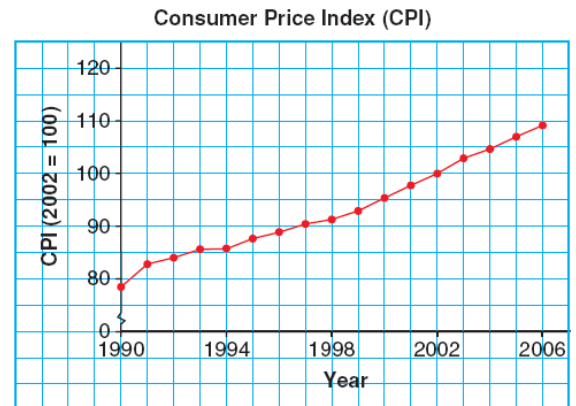
Statistics Canada tracks price changes using several different indices. The most important is the **CPI** or \_\_\_\_\_

To determine the CPI, Statistics Canada collects THOUSANDS of price quotations from across the country for a basket of about 600 popular consumer goods and services, from French fries and bus fares to tuition and Internet services



**EXAMPLE 1** Use this CPI graph to answer the following questions.

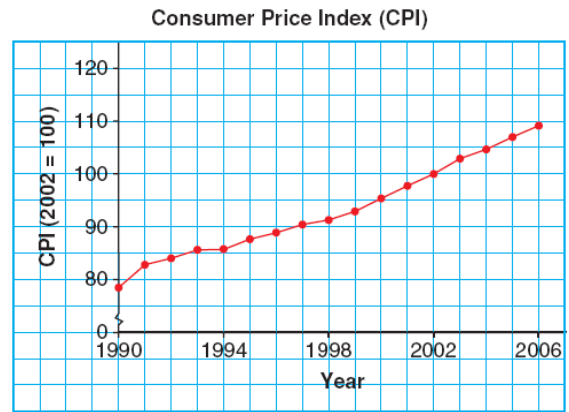
- What is the base year for the CPI?
- In what year was the cost of the basket of goods about 90% of the base cost?



- What was the CPI in 1990? What does this mean?
- Describe the change in the CPI from 1990 to 1991. What do you notice about the line segment representing this period?
- Describe the overall trend in the CPI and its significance.

**EXAMPLE 2** Use the same graph to calculate the following:

- a) Calculate the average annual rate of inflation from 1990 to 2006



- b) Use your answer in part a) to predict the CPI for 2010. Justify your prediction.

**EXAMPLE 2** The 2006 UBS Prices and Earnings report includes a comparison of clothing prices in 71 cities. The base price is the price in New York.

- a) Which cities in this table have index values less than 100? What does this tell you?

City	Clothing Price Index (New York = 100)
Zurich	115.6
Oslo	114.4
Dublin	97.5
New York	100.0
Toronto	73.8
Tokyo	148.1
Rome	87.5
Hong Kong	75.0
Delhi	43.8

- b) How do clothing prices in Zurich and Toronto compare to clothing prices in New York?