

Inflation Calculator



www.bls.gov

Introduction: Prices for consumer goods and services are always changing. In general, prices have increased over time; this is known as inflation. To determine how prices are changing, BLS first asks people how much money they spend on a variety of products and services. The Consumer Expenditure Survey is the tool that BLS economists use to determine consumers spending habits. The results of the Consumer Expenditure Survey tell us how much of a household's income is spent on certain items. After learning where people shop and how much they spend on certain items, BLS data collectors visit thousands of stores and other retail establishments on a monthly or bimonthly basis to collect prices of goods and services in urban areas throughout the country. The results of the consumer surveys are combined with the prices that were collected to calculate the Consumer Price Index (CPI). The CPI serves as the nation's measure of inflation. The BLS created an inflation calculator to help the public easily determine changes in the purchasing power of a dollar. Purchasing power is the amount of goods and services that can be purchased with a unit of currency, in our case U.S. dollars.

Activity: Students should use the inflation calculator http://www.bls.gov/data/inflation_calculator.htm to determine the value of goods in years past and convert prices from years ago into today's prices. For example, in 1980 a pound of potato chips cost \$1.98, but in 2012 it costs \$5.45.

A screenshot of the "CPI Inflation Calculator" web interface. The title "CPI Inflation Calculator" is in a red banner at the top. Below it, there is a text input field containing "\$ 11,900.00". Underneath the input field is a dropdown menu showing "in 1960". Below that is the text "Has the same buying power as:". Underneath this text is a yellow-highlighted text box containing "\$91,125.46". Below the yellow box is another dropdown menu showing "in 2012". At the bottom of the input section is a grey button labeled "Calculate". Below the input section, there are two links: "About this calculator" in blue and "Mobile Browser? View full screen." in purple.

Question 1: According to the Census Bureau, the median value of a home was \$11,900 in 1960. In today's dollars, how much purchasing power did \$11,900 have in 1960?

Answer: In 2012, it had the purchasing power of about \$91,125.00. This is an estimate based on prices across the country. Prices are different for products of different quality, for products purchased in different stores, and for people who live in different places. Prices also change at different rates for different types of items. For example, in the early 2000's, food prices increased more than prices for electronics.

Question 2: Your 75-year-old grandmother says to your 5-year-old brother, "When I was your age, hot dogs cost a nickel." How much would the nickel hot dog cost in 2012 dollars?

Answer: Using BLS's inflation calculator, you learn that the hot dog would cost only \$0.70. That's cheaper than the dollar menu!

Discussion: Discuss inflation. For which items have your students noticed price changes? How have these changes affected them and their families?