

Econ. 1A. Quiz 7.

I. A **Consumer Expenditure Survey** in the city of Firestorm shows that people consume only firecrackers and bandages. The prices and CPI basket of households are in the following table.

Item	CPI basket (Q)	Price (P)	Expenditure (PQ)	Price (P')
	(2002)	(2002)	(2002)	(2003)
Firecrackers	_____	\$2.00	\$150	\$3.00
Bandages	_____	\$1.00	\$ 15	\$1.25

Base year 2002

(1) Find the CPI basket (Show your calculation explicitly) [2]

(2) Find CPI (2002) and CPI (2003). (Show your calculation explicitly).[2]

(3) Find the inflation rate of 2003. (Show your calculation explicitly).[2]

II. John's salary and CPI data are as :

	Nominal wage	CPI
2000	\$32,000	100
2002	\$35,000	107.5

Base year 2000.

Find John's real wage in 2,000 and 2,002. (Show your calculation explicitly) [2]

III. Bank of America charges a 7.5 % interest rate on all new car loans. If the inflation rate is 3.5%, Bank of America receives how many % of real interest rate? (Show your calculation explicitly) [2]