

One inflation rate, two households

Student tasks | Original TBS lesson for A level Economics (Edexcel 9EC0 content, Theme 2, section 2.1.2 Inflation)

The government of a fictional country publishes one consumer prices index (CPI). It is about to raise the state pension in line with that index. A pensioners' group says its members face much higher inflation than the official figure. Build the index yourself, then test the claim.

Before you start you should know: a price index compares prices with a base period (base = 100). A price relative = new price / base price x 100. A weighted index adds up each category's price relative x its weight, then divides by the total of the weights (here 1,000). Inflation rate = change in the index / old index x 100. You need a calculator. This is original classroom practice, not an exam paper. The country, households and every figure are fictional.

What a typical basket costs (£ per week)

Category	Last year (base)	This year
Food and drink	80.00	86.40
Housing and energy	150.00	172.50
Transport	60.00	61.20
Recreation and eating out	125.00	120.00

Give index numbers and percentages to one decimal place.

Starter: rising, falling or slowing?

Match each description to inflation, deflation or disinflation.

Description	Term
(i) The general price level falls	
(ii) The general price level rises	
(iii) Prices still rise, but more slowly than last year	

Task 1: price relatives

a. Calculate the price relative for each category (last year = 100), to one decimal place.

Category	Last year (£)	This year (£)	Price relative
Food and drink	80.00	86.40	
Housing and energy	150.00	172.50	
Transport	60.00	61.20	
Recreation and eating out	125.00	120.00	

Working space:

b. Which category's prices fell? How can you tell from its price relative?

Task 2: the official index

The official index uses the spending pattern of an average household. Weights are out of 1,000.

Category	Weight	Price relative	Weight x relative
Food and drink	150		
Housing and energy	300		
Transport	150		
Recreation and eating out	400		
Total	1,000		

a. Complete the table and calculate the official index (total / 1,000) and the rate of inflation.

Task 3: two households (pairs)

Work in pairs. One partner calculates the pensioner household's index and the other the student household's. Then share your answers and complete part c together.

Weights (out of 1,000)	Pensioner household	Student household
Food and drink	250	200
Housing and energy	400	150
Transport	50	250
Recreation and eating out	300	400

a. Complete the table for your household (price relatives from Task 1: food and drink 108, housing and energy 115, transport 102, recreation and eating out 96 - check them against your own). Then calculate the index and the rate of inflation.

Category	Price relative	Your household's weight	Weight x relative
Food and drink	108		
Housing and energy	115		
Transport	102		
Recreation and eating out	96		
Total		1,000	

Index and inflation rate:

b. Your partner's household: index _____ inflation rate _____

c. Explain why the two households face different rates of inflation from the same price changes. Refer to two categories.

Task 4: how good is one index?

a. Give two reasons why an official CPI may not measure the inflation that a particular household experiences.

b. Some people prefer the Retail Prices Index (RPI). Give one way in which RPI differs from CPI.

c. If the pension rises by the official 4.4%, by how many percentage points does it fall short of the pensioner household's inflation rate? What does this mean for pensioners?

Task 5: decide

The government says, "Raising pensions by the CPI protects pensioners from inflation." Write about 100 words saying how far you agree. Use at least three figures from your answers and one limitation of the CPI.

Exit ticket

a. A price index rises from 112.5 to 118.0. Calculate the rate of inflation.

b. Inflation was 4% last year and is 2% this year. Is this inflation, deflation or disinflation? Explain in one sentence.
