CONCEPT: USING CPI TO ADJUST FOR INFLATION

● The Consumer Price Index (CPI) can be a useful tool for measuring purchasing power at different points in time

□ Formula for converting dollars from Year T to today's dollars:

$$Amount\ in\ CY\ dollars = Amount\ in\ Year\ T\ dollars * \frac{CPI_{CY}}{CPI_{T}}$$

□ This formula can help you adjust worker wages or prices for goods at different points in time

EXAMPLE: Billy the Millennial and Gen X Johnny are caught in a heated dispute. Billy the Millennial exclaims, "My student loans are enormous! I can barely afford to go to college!" Gen X Johnny haughtily retorts, "Ha! You make me sick! Your generation is so lazy! Back in 1975, I worked my way through college making $4.00 an hour at my part-time job at a movie theatre! You just want everything handed to you for free! Not only that, when I left college I worked my butt off 40 hours a week for just $14,000 annual salary and purchased my 3 bedroom home for $42,000. Your generation will never have the work ethic that I put in!" Knowing that the CPI was 53.8 in 1975 and 240 in 2016, calculate the following:

(a) Gen X Johnny's part-time wage in 2016 dollars

(b) Gen X Johnny's annual salary in 2016 dollars

(c) Gen X Johnny's home price in 2016 dollars