



HOW



INFLATION

MEASURED

IN



@BHATIASHIVENDRA

#SHIVENDRABHATIA

01

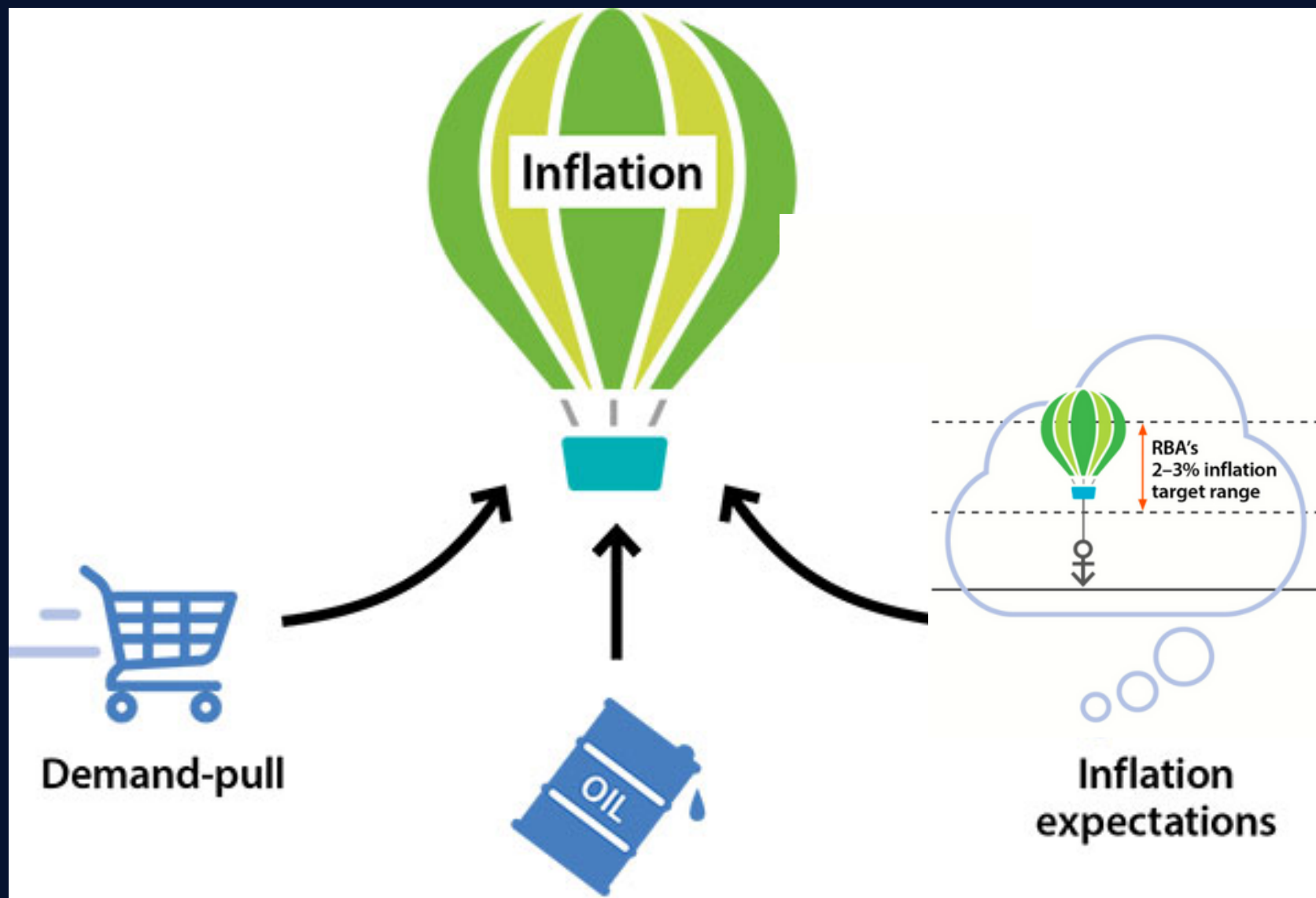
CPI Basket and their Weights as per 2022



SOURCE:RBA(DOT)GOV(DOT)AU/EDUCATION/RESOURCES/EXPLAINERS/INFLATION-AND-ITS-MEASUREMENT.HTML

Factors That Lead to Inflation

02



SOURCE:RBA(DOT)GOV(DOT)AU/



03

A closer look at **Inflation's** key points.



- Inflation is Rise in prices of goods and services households purchase.
- Measured by Consumer Price Index (CPI) as percentage change.
- CPI calculated by Australian Bureau of Statistics (ABS) quarterly.
- ABS collects prices for thousands of items across 87 categories.
- Price changes of each item calculated and aggregated for inflation rate.
- Reflects changes in cost of living and purchasing power.

Calculating Inflation - An Example

- Calculating inflation for a basket with Example - Books and Childcare.

$$\text{Inflation} = \frac{\text{Price}_{\text{Year 2}} - \text{Price}_{\text{Year 1}}}{\text{Price}_{\text{Year 1}}} \times 100$$

- Book price: \$20 (2016) → \$20.50 (2017)
- Childcare price: \$30 (2016) → \$31.41 (2017)

Items	2016	2017	Inflation
	\$20	\$20.50	2.5%
	\$30	\$31.41	4.7%

- Childcare holds a greater weight (73%) than books (27%). Using the price changes, the annual inflation for this basket is 4.1%
- Basket Inflation = $(0.73 \times 4.7) + (0.27 \times 2.5) = 4.1\%$

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How is the CPI basket chosen?


- The CPI basket is determined based on how Australian households allocate their income.
- Items with higher household spending receive larger weights in the CPI. For example, smart phones were included to reflect technological advances.
- Data on household spending is updated every 5 years or so.



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