

How Much Does It Cost Now?

Name _____ KEY _____

I am not worried about the deficit. It is big enough to take care of itself.

-Ronald Reagan circa 1981



In 1981 Ronald Reagan was president of the United States. The cost of a new home was \$83,000. After adjusting for inflation, how much would we expect that home to cost today?"

To find the cost of a 1981 home today, one must know the Consumer Price Index in the 1981 and today. Assume that the current year is 2009. The formula to use is:

Price in 1981 times $(CPI_{2009}/CPI_{1981}) = \text{Current Price}$

$$\begin{aligned} \$83,000 * (213/92) &= \text{Current Price} \\ \$83,000 * (2.31) &= \text{Current Price} \\ \$192,163 &= \text{Current Price} \end{aligned}$$

Directions: Using the FRED data base, data series, CPIAUCNS, (after adjusting for inflation) compute how much goods in 1981 would cost in 2009.

1. An average household, earned \$19,074.00 in December, 1981. How much would that income be in October, 2008? ($\$19,074.00 * (216.573/94.000) = \$43,945.89$)

2. In February, 1985, the cost of a gallon of milk was \$2.26. In November of 2007, how much would that gallon of milk cost? ($\$2.26 * (210.177/106.000) = \4.48)

3. In January, 1950, the minimum wage was \$.75. What should the minimum wage be in July, 2009? ($\$.75 * (215.351/23.500) = \6.88)

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□ <http://www.1980sflashback.com:80/1981/economy.asp> for 1981 prices.