Consumer Price Index Formula

Consumer Price Index or CPI is known as the index which is used to measure the level of retail inflation in an economy, by taking into account the changes in price of the most commonly used goods and services that are used by consumers.

CPI is denoted by a basket of goods and services and the changes in this basket is studied over a time period. It is commonly used by policymakers and the economists as a measure of inflation, along with the GDP Deflator.

There are four steps in the calculation of CPI and the level of inflation in an economy, which are

1. Fixing a basket of goods and services as reference
2. Calculating the cost of the selected basket
3. Calculating the CPI
4. Calculating the Inflation Rate

Consumer Price Index (CPI) can also be used for determining the cost of living of the people of a country. In addition to that, CPI can also be used as a reference point for understanding various parameters like real value of money, wages and also the purchasing power of the currency of the nation.

The Consumer Price Index Formula can be mathematically represented as

Consumer Price Index (CPI) = [Cost of the basket in the current year / Cost of the basket in the base year] x 100

Or it can be represented as

CPI = [Cost of Basket(t) ÷ Cost of Basket(0)] x 100