

Graphing a Consumer Price Index

EXAMPLE 3 Graphing a Consumer Price Index

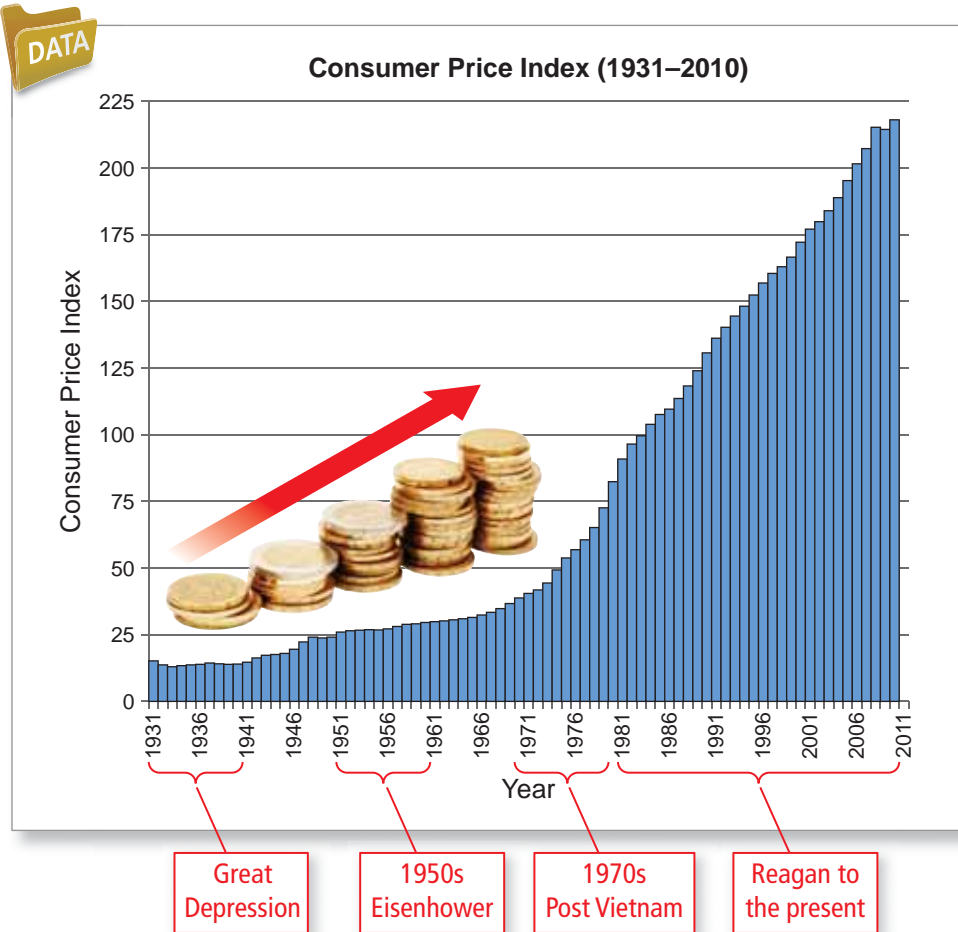
Graph the CPI from 1931 through 2010. Use the graph to describe the rates of inflation during these years.

SOLUTION

One way to do this is to enter the CPI values into a spreadsheet. Then use the spreadsheet to graph the values.



In early 1980, inflation and interest rates rose to about 18%, which was much higher than during any other time of peace. Business people and bankers panicked and began talking about financial collapse, bankruptcies, and a drop in the American standard of living. Jimmy Carter gave a speech not only to announce a new program to fight inflation, but also to calm the panicking public.



During the Great Depression, inflation was nonexistent. During World War II and the 1940s, inflation started to increase, reaching an annual rate of 14.4% in 1947. During the 1950s, America entered a period of stability, with an annual inflation rate of about 1.9%. With the Vietnam War in the 1960s, inflation started to increase again. By the 1970s, ending with the Carter years, inflation was rampant. The annual rate of inflation during this decade was about 6.5%. From 1981 through 2010, the CPI followed a linear pattern, which implies that the rate of inflation was gradually decreasing during that 30-year period.

✓ Checkpoint

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From the graph in Example 3, does it appear that either political party (Democratic or Republican) is more associated with higher inflation rates? Explain your reasoning.