
Inflation 1

1. Suppose, we have a two product economy with goods A and B. In the price index these goods have the given weights and the following price development during the last three years.

	A		B	
	Price [Euro]	Weight	Price [Euro]	Weight
t=0	4	0,25	8	0,75
t=1	12	0,25	8	0,75
t=2	4	0,25	12	0,75

- (a) calculate the inflation rate for t=1 and t=2.
- (b) In t=3, we expect an inflation rate as high as the average inflation rate of the former two years.