

Week 5 - Come and have a go if you think you're hard enough

The Retail Prices Index (RPI) for June in any year is

$$\text{RPI}_{\text{June}} = \frac{\text{cost of purchasing a fixed basket of goods at June prices}}{\text{cost of purchasing a fixed basket of goods at January prices}}$$

The basket of goods is composed of the average quantities of various items purchased by a typical household during a base period which is prior to the January which features in the index.

1. Define the cost of living index which corresponds to the RPI
2. Argue whether the RPI has either an upward, downward or unignorable bias compared to the corresponding cost of living index.