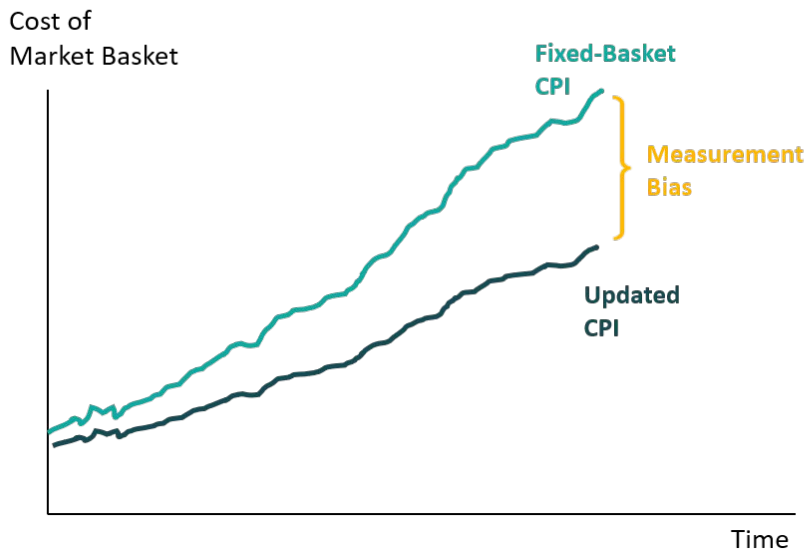


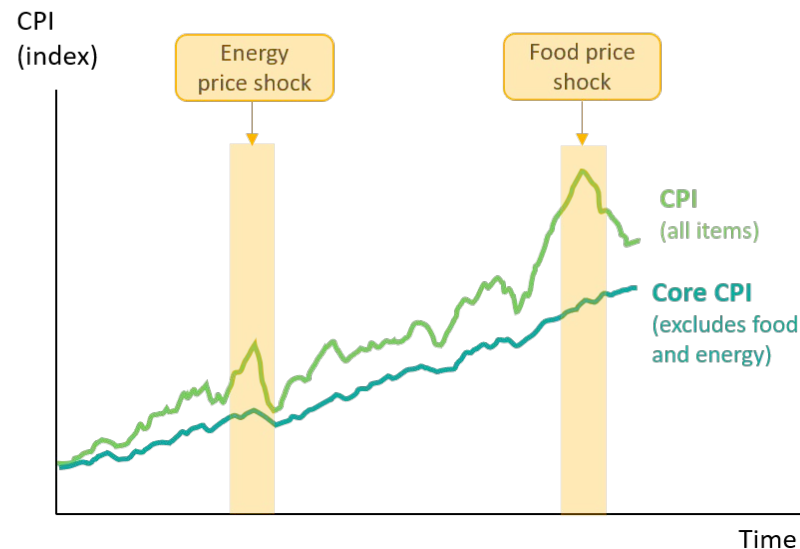
A. Improving the Measurement of Inflation

(updating the CPI for a changing economy)



B. Interpreting Inflation

(comparing CPI and core CPI)



UE Figure S2 Ep3: Measuring Inflation in a Changing Economy. Panel A illustrates why the Consumer Price Index (CPI) methodology must evolve over time. A hypothetical fixed-basket CPI assumes consumers continue purchasing the same goods and services and does not account for substitution, new products, or quality improvements. As the economy changes, this approach becomes increasingly biased. The current CPI incorporates methodological improvements that help keep the index representative of changes in the cost of living. Panel B compares CPI and Core CPI. Because food and energy prices are especially volatile, CPI fluctuates more from month to month. Core CPI excludes these categories, providing a smoother measure of the underlying inflation trend.

