

TWO POLICY ANALYSTS ON VACATION



"Now, that's a welcome sight! I was just beginning to miss decision-making."

Drawing by Jonik; Copyright © 1981. The New Yorker Magazine, Inc.

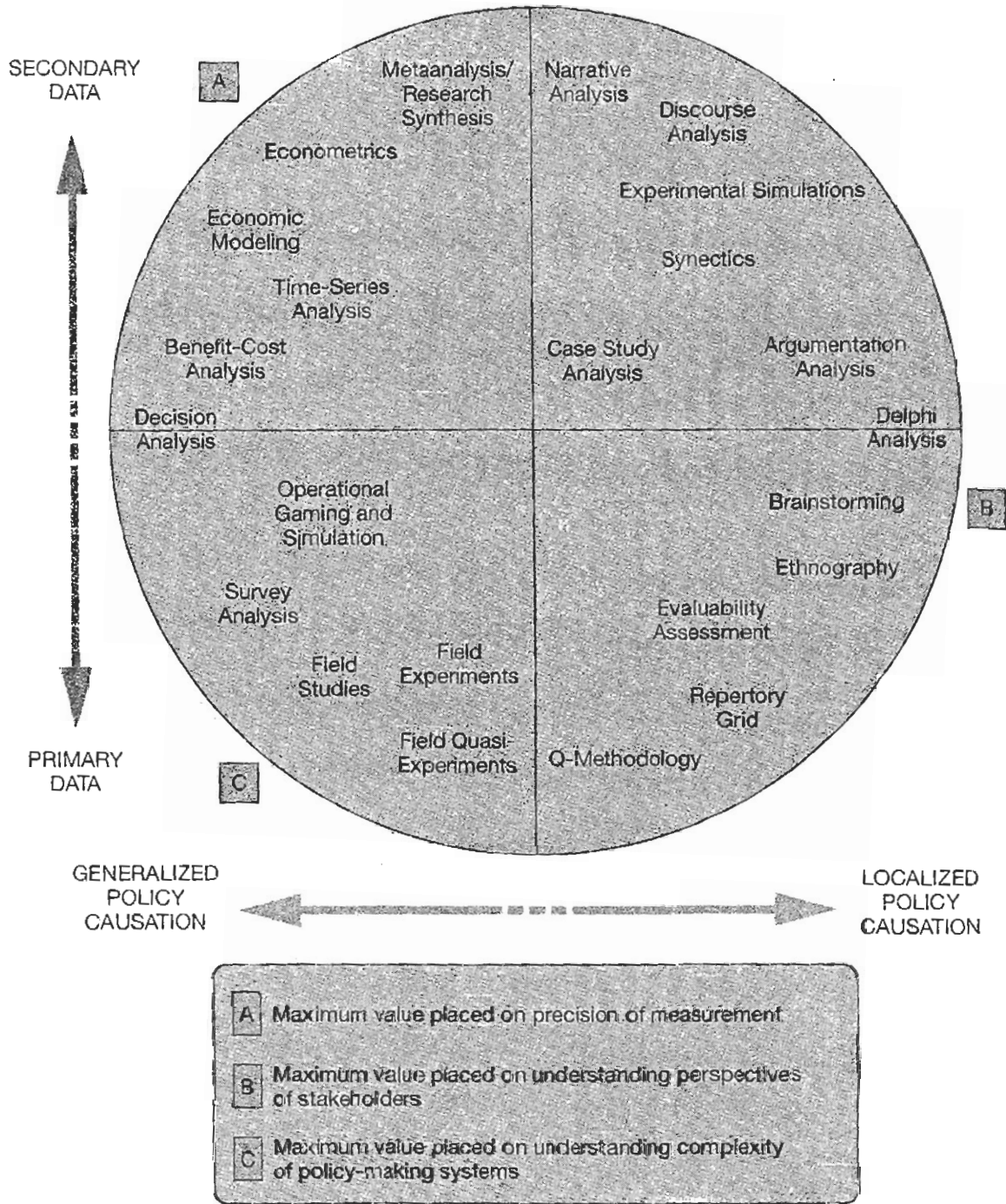


Figure 1.3 Opportunity Costs of Adopting Different Methods

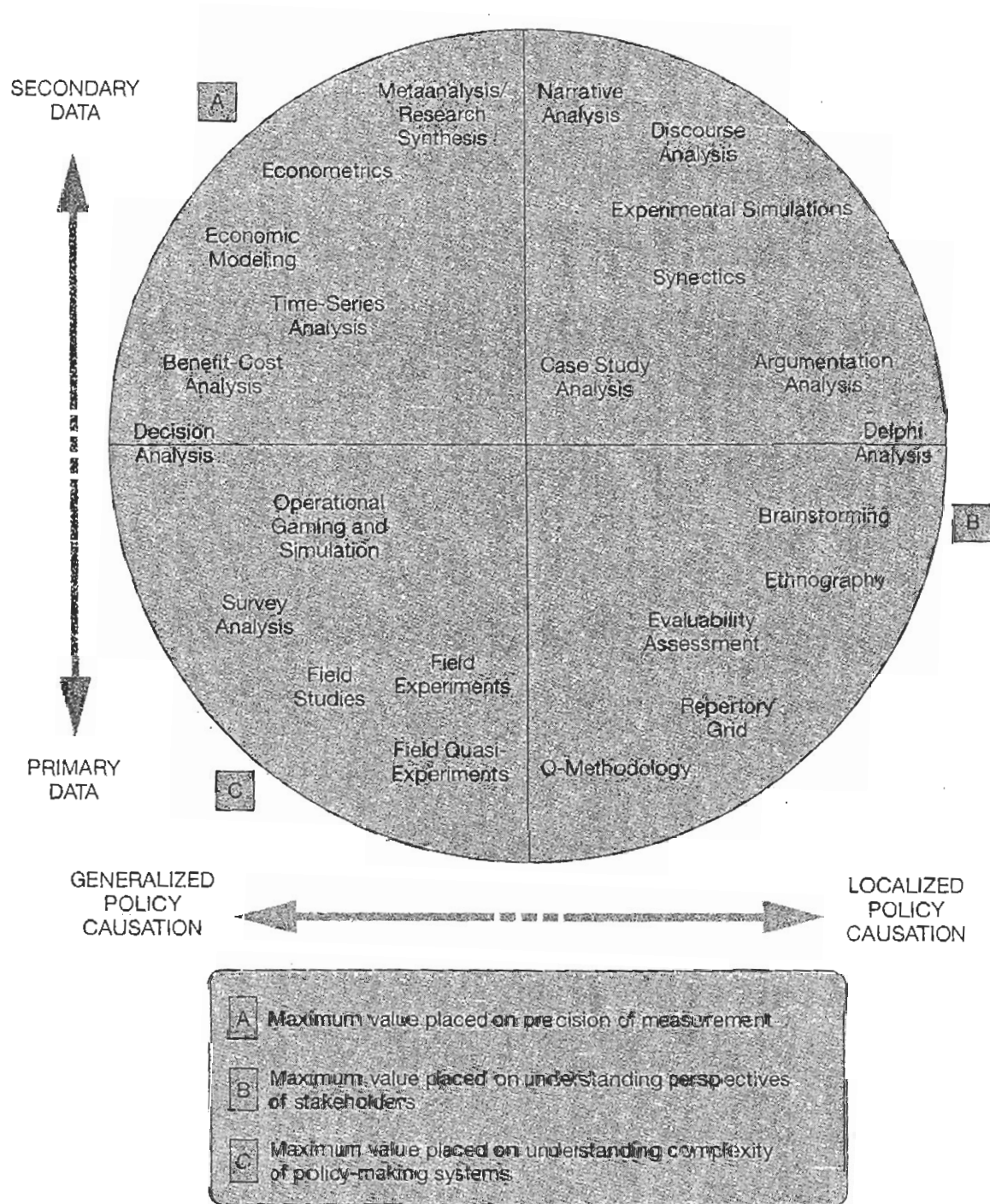
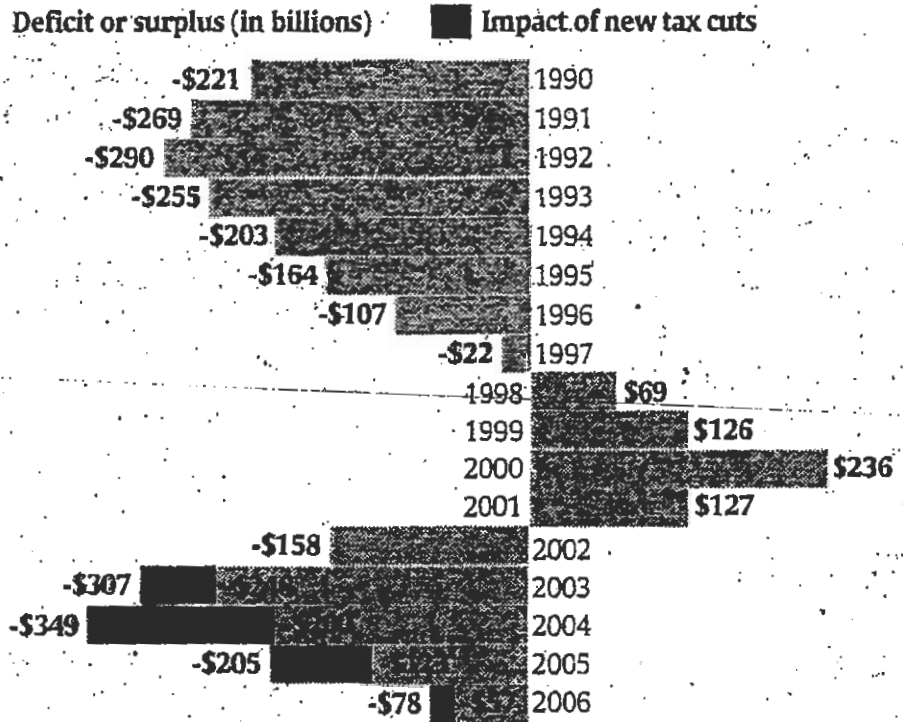


Figure 1.3 Opportunity Costs of Adopting Different Methods

Federal budget deficits to hit records

Congress' approval of billions in tax cuts and state aid is projected to increase federal budget deficits. In comparison, a deficit-reduction law signed by President Bush's father in 1990 helped pave the way for lower deficits and a short-lived surplus.



Source: Congressional Budget Office

By Julie Snider, USA TODAY

The CPI's new 'market basket'

Here are the major groups and some individual components of the reorganized consumer price index, and what percentage each group accounts for. (Because of rounding, figures do not add up to 100 percent.)

FOOD AND BEVERAGES (16.3%)

No significant changes; some components have been restructured.

- Cereals and bakery products.
- Meats, poultry, fish and eggs.
- Dairy and related products.
- Fruits and vegetables.
- Beverages and beverage material.
- Alcoholic beverages.

HOUSING (39.6%)

Several components in this group are now in other major groups.

Shelter (29.8%)

- Rent of primary residence.
- Lodging away from home.
- Owners' equivalent rent of primary residence.
- Tenants' and household insurance.

Fuels and utilities (5%)

- Fuel oil and other fuels.
- Gas (piped) and electricity.
- Water and sewer and trash-collection services.

Household furnishings and operations (4.8%)

- Window and floor coverings and linens.
- Furniture and bedding.
- Appliances.
- Other household equipment and furnishings.
- Housekeeping supplies.
- Household operations.
- Tools, hardware, outdoor equipment and supplies.

APPAREL (5.0%)

This group was formerly called "apparel and upkeep." The "upkeep" component moved to the "other goods and services" group.

- Apparel.
- Footwear.
- Infants' and toddlers' apparel.
- Jewelry and watches.

TRANSPORTATION (17.6%)

No significant changes.

■ New and used motor vehicles (now includes leased vehicles).

■ Public transportation.

■ Motor fuel; vehicle parts and equipment; maintenance and repair; vehicle insurance; fees.

MEDICAL CARE (5.6%)

No significant changes; some subcategories were combined.

- Drugs and medical supplies.
- Professional services.
- Hospital and related services.
- Health insurance.

RECREATION (6.2%)

Formerly called entertainment, this group was changed to recreation to make it clearer that it includes the costs associated with leisure activities.

- Video and audio (previously in housing).
- Pets, products and services (previously in housing).
- Sporting goods.
- Photography.
- Other recreational goods.
- Recreation services.
- Recreation reading materials (previously in "other goods and services").

OTHER GOODS AND SERVICES (4.3%)

The size of this group was reduced; some items are now under the new education and communication group.

- Tobacco and smoking products.
- Personal care products, services.
- Miscellaneous personal services and goods.

EDUCATION AND COMMUNICATION (5.5%)

■ Education books and supplies (previously in "other goods and services").

■ Tuition, other school fees and child care (previously in "other goods and services").

■ Telephone services (previously in housing; includes a new item: cellular phone services).

■ Postage and delivery services (previously in housing).

■ Information and information processing other than telephone services (previously in housing).

CPI changes with the times

Overhaul first in 11 years

By Beth Belton
USA TODAY

The consumer price index — the government's key inflation gauge — has been overhauled for the first time in 11 years.

The new CPI will be unveiled Tuesday, when the Bureau of Labor Statistics (BLS) reports January prices.

There have been vast changes in consumer spending habits the past decade, says BLS economist Pat Jackman. "We were always picked on for not having cell phones in the CPI. Now they're in there," says Jackman, who supervises the CPI report.

The overhaul:

► Adds a major category, education and communication, to the seven categories previously used: apparel, medical care, recreation, transportation, food and beverages, housing and other goods/services.

► Uses new statistical techniques to better reflect changes in the quality of goods and services, especially personal com-

puters.

► Shows that consumers are spending less of their income on food, beverages and transportation and more on shelter and medical care.

The CPI is used to figure annual cost-of-living adjustments for 80 million recipients of Social Security, food stamps and government retirement benefits. It's also used by the Internal Revenue Service to prevent inflation-induced income-tax rate increases. And Federal Reserve policymakers use it to set short-term interest rates.

The BLS constantly refines the CPI, but this is just the fifth overhaul in its 81-year history.

By next year, the overhaul — along with planned changes and revisions the past three years — will trim 0.7 percentage points off what the CPI would have been, estimates the Council of Economic Advisers. The impact is significant in a CPI that rose just 1.7% in 1997. But Tuesday's number shouldn't be a shock because many changes are already included.

Figure 5-5
TREND EXTRAPOLATION IN THE 1,500-METER RUN

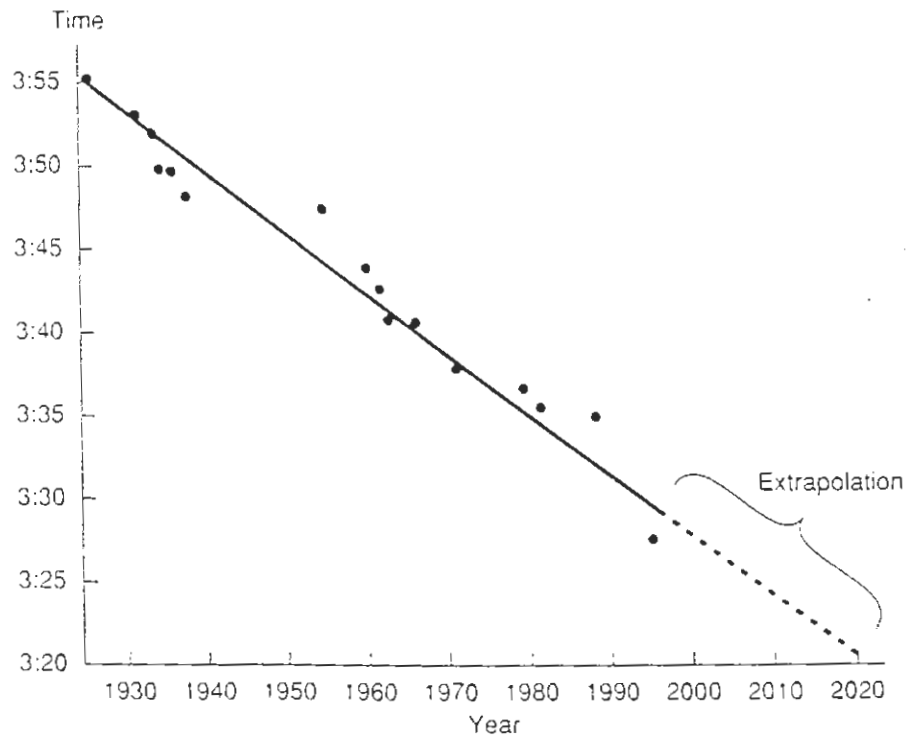


Figure 5-6
TREND EXTRAPOLATION DILEMMAS

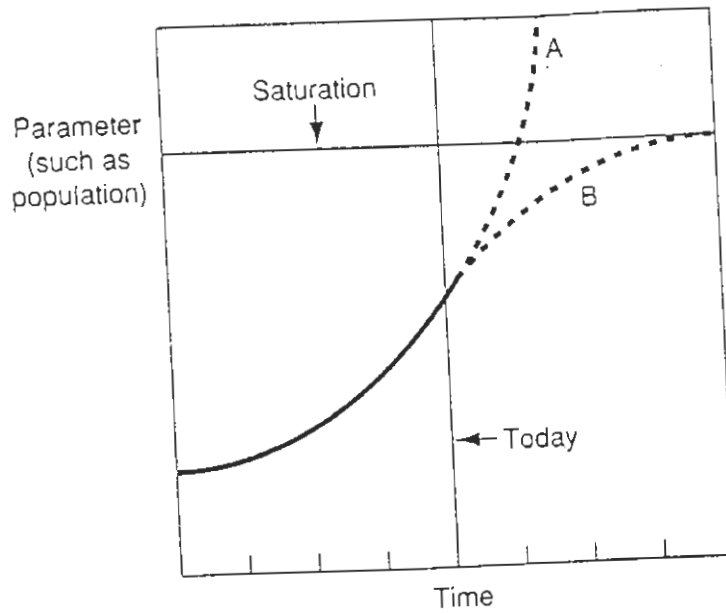
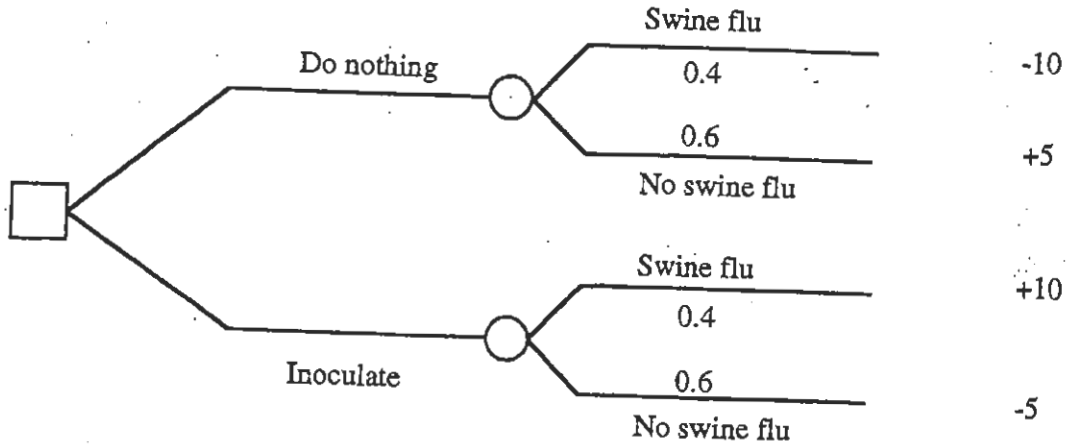


Table 13.7 Prisoner's Dilemma

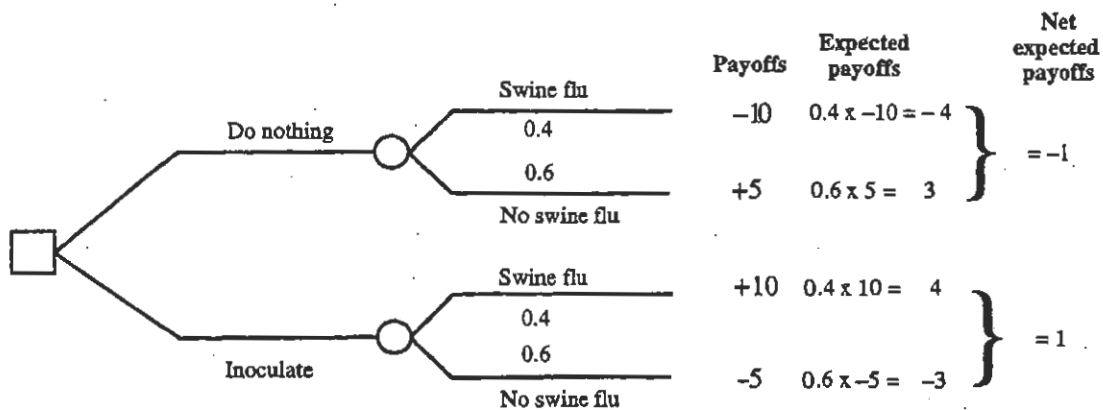
<i>Your strategy</i>	<i>Your friend's strategy</i>	
	<i>Confess</i>	<i>Do not confess</i>
<i>Confess</i>	5, 5	Witness protection, 15
<i>Do not confess</i>	15, witness protection	0, 0

Figure 13.1 Hypothetical Decision Tree on Swine Flu Threat



In Figure 13.2 we can see that, facing an uncertain situation, President Ford had a choice between an expected payoff of -1 (for the “Do nothing” option) and $+1$ (for the “Inoculate” option). Therefore, given the logical construct, he should have chosen the option to inoculate the entire population against a probable swine flu infestation. As an anecdotal postscript to this analysis, we should note that President Ford did choose to inoculate, and the virus failed to show up in the United States.⁷

Figure 13.2 Decision Tree on Swine Flu



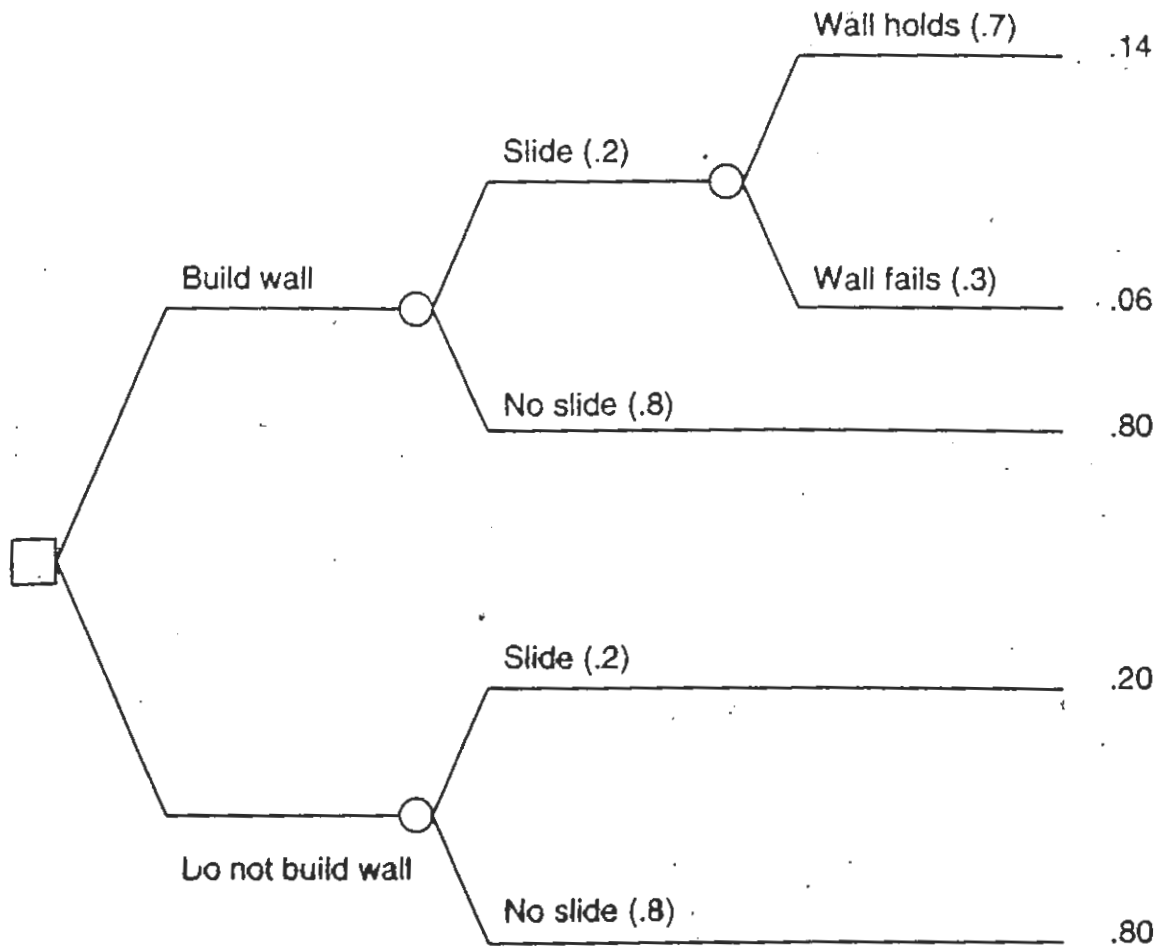


FIGURE 6-2
A Decision Tree

Figure 13.6 Decision Tree on Flood Control with Total Expected Costs

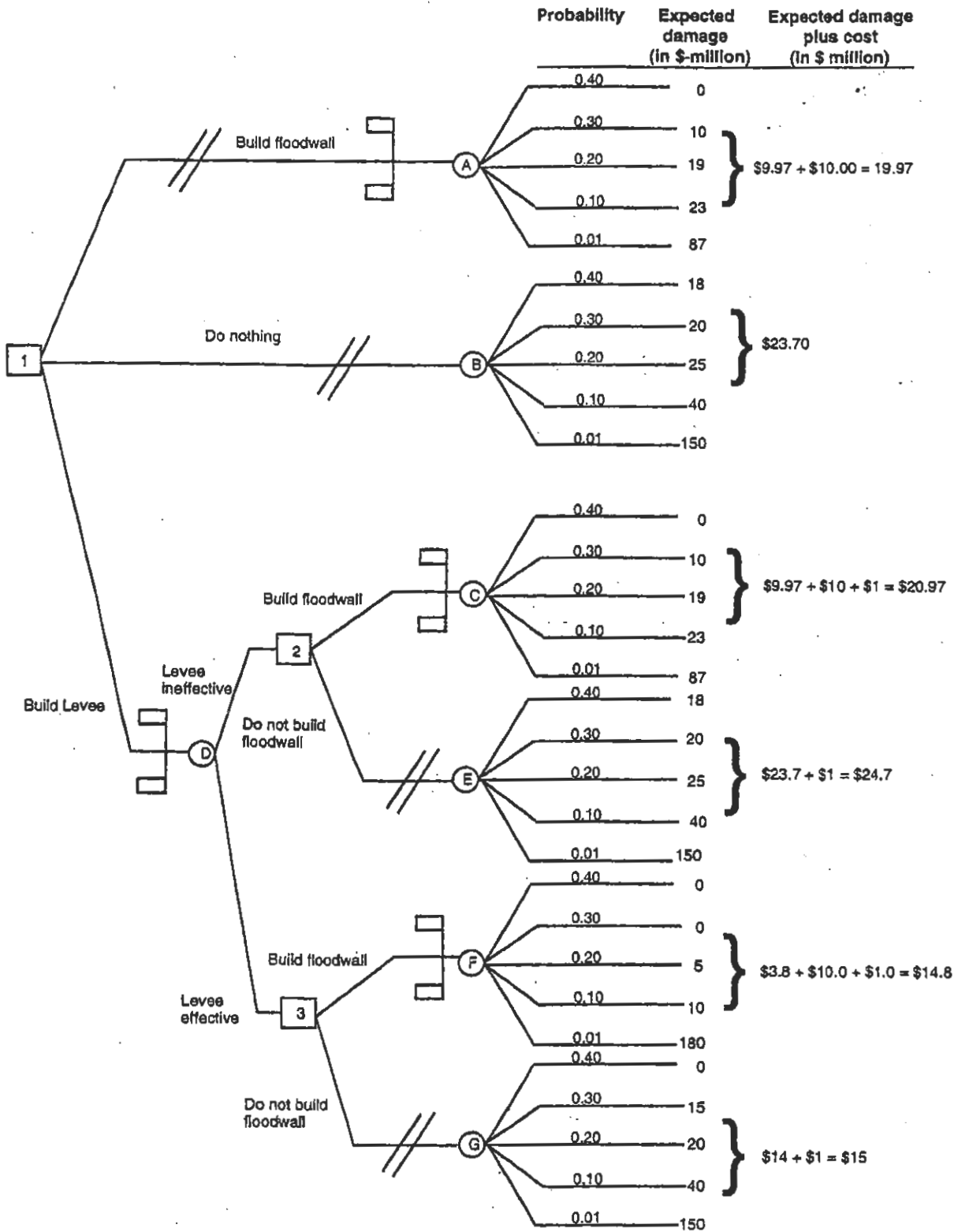


Table 13.4 Total Estimated Cost of Floodwall and Levee

<i>Probability of flood</i>	<i>Estimated damage (in \$ million)</i>						
	<i>Floodwall</i>	<i>Ineffective levee</i>				<i>Effective levee</i>	
		<i>No floodwall</i>	<i>No Floodwall</i>		<i>No floodwall</i>		
0.50	0.00	0.00	0.00	0.00	0.00	0.00	
0.40	0.00	18.00	0.00	18.00	0.00	0.00	
0.30	10.00	20.00	10.00	20.00	0.00	15.00	
0.20	19.00	25.00	19.00	25.00	5.00	20.00	
0.10	23.00	40.00	23.00	40.00	10.00	40.00	
0.01	87.00	150.00	87.00	150.00	180.00	150.00	
Total estimated damage	9.97	23.70	9.97	23.70	3.80	14.00	
Cost of floodwall	10.00	0.00	10.00	0.00	10.00	0.00	
Cost of levee	0.00	0.00	1.00	1.00	1.00	1.00	
Total cost	19.97	23.70	20.97	24.70	14.80	15.00	