

**Is the CPI a cost-of-living index?**

The public usually confuses the Consumer Price Index (CPI) with a cost-of-living index (COLI). According to the CPI manual compiled by some organizations such as United Nations (UN) and International Labour Organization (ILO), a fundamental conceptual distinction may be drawn between the CPI and a COLI. The CPI measures the changes between two time periods in the total expenditure needed to purchase a fix market basket of consumption goods and services. A COLI measures the changes between two time periods in the minimum cost of maintaining a given standard of living. Both indices measure the changes between two time periods, however, the former reflects the variation in prices under a fix basket and the latter shows the difference of total expenditure under the same utility level. Therefore, a COLI would contain the entire set of consumption goods and services consumed by the households from which they derive utility. It includes the goods and services received free as in-kind transfers from governments or non-profit institutions. A COLI also does take substitution effect into account.