

Falling Computer Prices

Personal computers have fallen greatly in price.

Twenty years ago, a microcomputer running a 5 Mhz might cost \$3,000.

Today, a microcomputer running at 2 Ghz (400 times as fast) might cost \$1,000.

How should this fact be reflected in the measurement of inflation?

1

Consumer Good Versus Intermediate Good

Microcomputers are primarily intermediate (or investment) goods, rather than consumer goods.

From this point of view, the falling price of computers poses no problem for the measuring the consumer price index. The use of computers will reduce the price of consumer goods, and this reduction is what the consumer price index wants to measure.

Whether computer prices have fallen much or little is almost irrelevant to the measurement of the consumer price index.

2

Home Computing

Of course computers are used by consumers, so the fall in price is pertinent to the consumer price index.

However expenditure on computers represents only a small fraction of all consumer spending.

3

The Price of Computing Versus the Price of Speed

A key point is that the price of computing and the price of speed is not the same.

Certainly the price of computing speed has fallen enormously.

4

The Price of Word Processing

How has the price of word processing changed?

Twenty years ago one could pay \$3,000 and do word processing. Today one can pay \$1,000 and do word processing.

So one might argue that the price of word processing has fallen by $2/3$, but not by more.

5

The Price of Computing

Overall, the price of computing has fallen less than the price of speed.

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