Chapter 5 #5

a. Legislators wish to ensure that the real value of Social Security and other benefits stays constant over time. This is achieved by indexing benefits to the cost of living as measured by the consumer price index. With indexing, nominal benefits change at the same rate as prices.

b. Assuming the inflation is measured correctly, senior citizens are unaffected by the lower rate of inflation. Although they get less money from the government, the goods they purchase are cheaper; their purchasing power is exactly the same as it was with the higher inflation rate.