

Lost in translation: What do Engel curves tell us about the cost of living?*

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Abstract

The Hamilton method for estimating CPI bias is simple and intuitively appealing and has been widely adopted. We show that the Hamilton method is internally inconsistent and conflates CPI bias with variation in cost of living across income levels. We demonstrate a method by which these two components can be disentangled. Our approach can recover changes in cost of living for any income level and we exploit this to study growth in the median income for the United States.

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