

Activity

How Far Would Your Money Go in Another State?

Working With Price Differences

Do you ever wonder about living in a different state? You might move with your family, to go to a college in another state, or for your job. In many cases, you'd notice that living in a new place is more expensive or less expensive than where you are now.

What if you were job-hunting and received offers in two different states for about the same pay? How could you make a more informed decision about which job to take? It would be a good idea to check out living costs in both areas. Would your paycheck buy more goods and services, including rent, in one place than the other?

You can compare price levels between two places by using **regional price parities**, or RPPs, produced by the U.S. Bureau of Economic Analysis. An area's RPP for all items compares its price level for all goods and services to the national average, which is set at 100.

Prices can vary greatly even within the same state. BEA produces RPPs for all 50 states and the District of Columbia, for metropolitan statistical areas, and for the nonmetropolitan portion of each state. They are published along with real personal income data in the Regional Data section of BEA's Interactive Data at <https://apps.bea.gov/itable/>.

You can also see the latest state RPPs within the real consumer spending news release at <https://www.bea.gov/data/prices-inflation/regional-price-parities-state-and-metro-area>.

For direct links to the RPP data or the news release page, go to [bea.gov/activities](https://www.bea.gov/activities).

Using Regional Price Parities to Compare Price Levels

To compare the price levels of two states, you can use RPPs in this formula:

$$(\text{State A's RPP} / \text{State B's RPP}) \times 100$$

1) Find state RPPs in BEA's data tables or go to the news release page and click Current Release, then scroll down to the chart. Use this example of two higher and lower price states:

State A's RPP is **103.2**.

State B's RPP is **88.9**.

2) Divide State A's (higher) RPP by State B's (lower) RPP. Multiply the answer by 100:

$$(103.2 / 88.9) * 100 = 116.1$$

Rounding to a whole number, State A's prices are 116 percent of State B's prices. Goods and services that cost \$100 in State B would cost you \$116 on average in State A.

In other words, State A's prices are 16 percent higher than State B's.

To use the lower-price State B as your starting point, divide State B's RPP by State A's RPP. Multiply the answer by 100:

$$(88.9 / 103.2) * 100 = 0.86$$

State B's prices are 86 percent of State A's prices. Goods and services that cost \$100 in State A would cost you \$86 on average in State B, or 14 percent less.

Activities

Answer the following questions using state RPP data:

Activities Part A:

1. What is your state's all items RPP? _____
2. At what number is the U.S. RPP always set? _____
3. Is your state's price level higher or lower than the U.S. level (or the same)?

Circle one: Higher Lower The same

4. If your state's RPP is higher or lower than the U.S. level, fill in the correct blank:

My state's price level is _____ percent higher than the national average.

OR

My state's price level is _____ percent lower than the national average.

Activities Part B:

5. Showing your work, calculate the difference between the price levels of California and South Dakota to fill in the blank in the sentence below (round to a whole number when writing the percentage).

California is _____ percent more expensive than South Dakota.

Activities Part C:

Using the states' RPPs, answer these questions:

6. Which state has the highest prices?

7. Why do you think prices might be higher there than in other states?

8. Which state has the lowest prices?

9. How much higher are prices in the most expensive state, compared with the least expensive state? Calculate using their RPPs. (Hint: What formula have you used to help you compare locations already?)

Prices in _____ are _____ percent higher than in _____.

Activities Part D:

Imagine you received job offers paying \$50,000 per year from three different companies, each located in a different state: the state you live in now, Hawaii, and Mississippi.

You want to figure out which job is offering the most purchasing power in its location, in other words, how far your money would go there.

- If you had to guess, do you think \$50,000 would buy more goods and services in Hawaii or Mississippi?
- Do you think living in your state is relatively expensive or inexpensive?

Use the states' regional price parities to find out in the problems below. (If you live in Hawaii or Mississippi now, choose a third state to use as "your state" in the problems.) Show your work. This formula will help:

Nominal Income / (RPP / 100) = Income adjusted for regional price levels

10. What is the RPP-adjusted value of \$50,000 for your state?

11. What is the RPP-adjusted value of \$50,000 for Hawaii?

12. What is the RPP-adjusted value of \$50,000 for Mississippi?

13. Based solely on average statewide price levels (not considering, for example, differences between a state's cities and rural areas), in which state does a job paying \$50,000 have the most purchasing power?