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**A STUDY OF INFLATION IN SRI LANKA USING NEW
COLOMBO CONSUMER'S PRICE INDEX COMPARED TO THE
OLD COLOMBO CONSUMER'S PRICE INDEX**

A PROJECT REPORT PRESENTED BY

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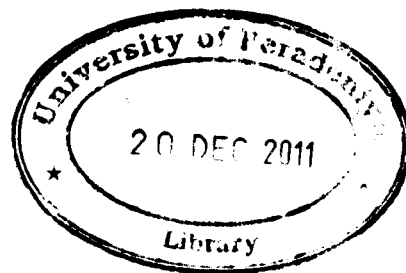
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**A STUDY OF INFLATION IN SRILANKA USING NEW
COLOMBO CONSUMER'S PRICE INDEX COMPARED TO THE
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This study is based on the monthly Consumer Price Index (CPI) in Sri Lanka, New Colombo Consumer's Price Index (CCPI(N)), Colombo Consumer's Price Index (CCPI), Real Wage Rate Index (RWRI), Broad Money (M2) and Narrow Money (M1). The variables CCPI(N), CCPI, RWRI, M2 and M1 show integrated of order 1 (I(1)) behavior. The Johansen Cointegration was applied to test the long-run relationship, and the test shows that there is a cointegration between the two indices CCPI(N) and CCPI, and also there is a cointegration between CCPI(N) and M2. Further, there is no cointegration between the pairs (CCPI(N), RWRI), and (CCPI(N), M1). However, when the variable M2 is included in the cointegration regression of CCPI(N) and M1, then there exist a cointegration relationship between CCPI(N) and M1. The short-run relationship was investigated by the Error- Correction Model, and the future values of CCPI(N) for the time period from December 2008 to November 2010 were also calculated by using the error- correction model. In addition, the future values of CCPI(N) were calculated by using Time series analysis. The results show that, for short-term forecasts ARIMA model and for long-term forecasts cointegration model are useful.