

3

2

Basket	Quantity	Prices Base Year
Food	10	10
Doctor Visit	2	50
Rent	1	700
Gasoline	50	2
Basket Cost		1,000

Prices Today

30

75

1500

1

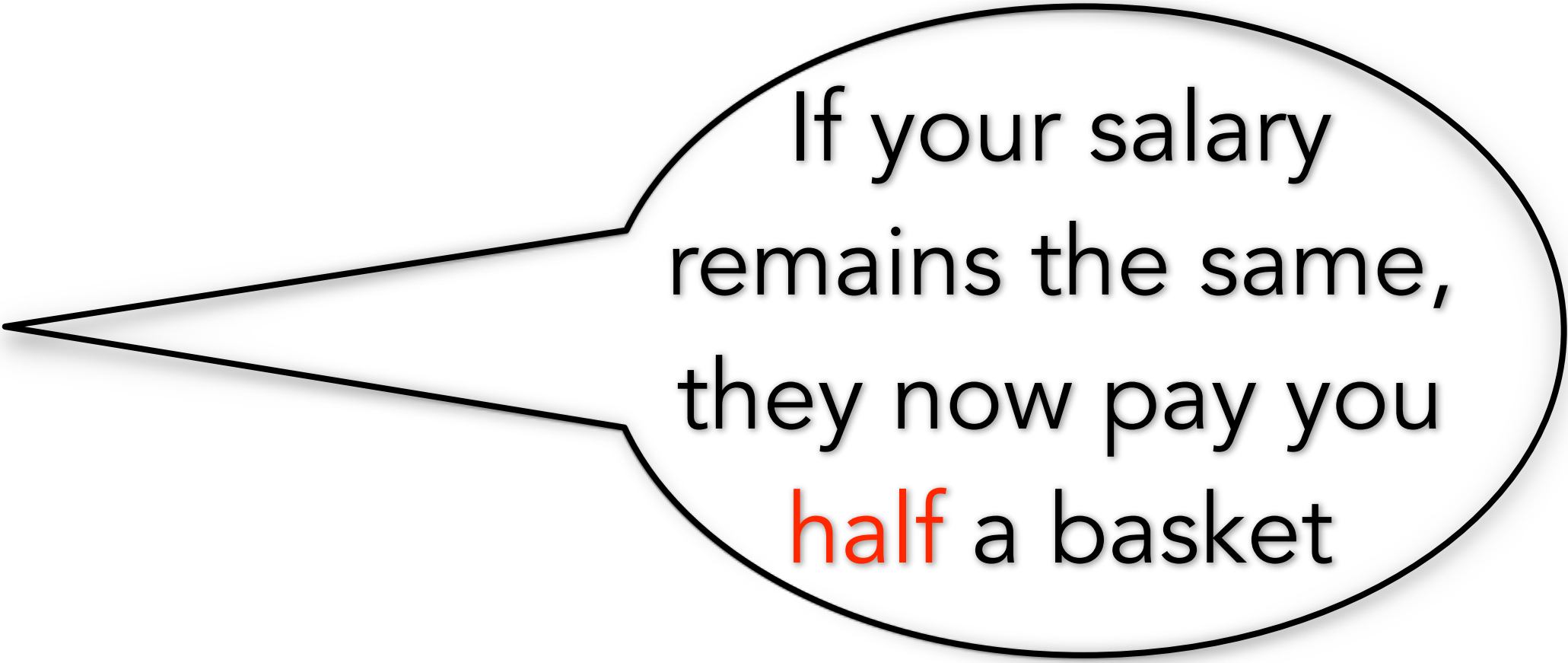
2,000

1,000

Salary	1,000
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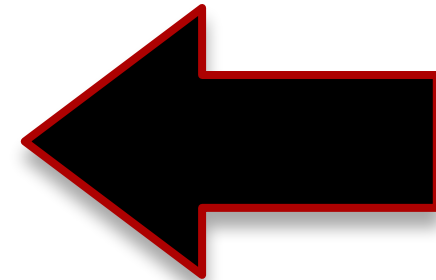
Your salary is
a full basket



If your salary
remains the same,
they now pay you
half a basket

To avoid this drop, your salary must increase by the same amount as the cost of the basket

If the basket now costs \$2,000, your salary must increase to \$2,000 so you can buy one full basket



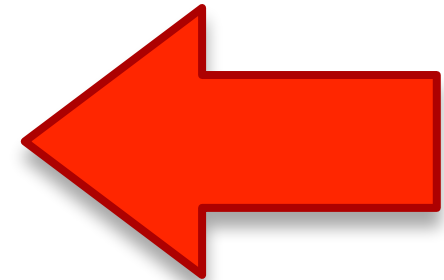
This is your **Nominal** Salary

Real Salary

One full
basket

Half a
basket

Using the CPI



This is your **Real** Salary

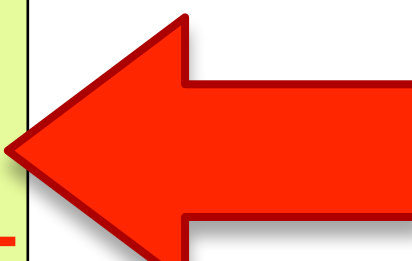
Using the CPI

Basket	Quantity	Prices Base Year	Prices Today
Food	10	10	30
Doctor Visit	2	50	75
Rent	1	700	1500
Gasoline	50	2	1
Basket Cost		1,000	2,000
Salary		1,000	1,000
Real Salary		One full basket	Half a basket

To avoid this drop, your salary must increase by the same amount as the cost of the basket

If the basket now costs \$2,000, your salary must increase to \$2,000 so you can buy **one full basket**

 This is your **Nominal** Salary

 This is your **Real** Salary

Calculating the Real Salary

	Base Year	Today
Basket Cost	1,000	2,000
CPI	100	200
Nominal Salary	1,000	1,000
Real Salary	One full basket	Half a basket