



Real Salary =

Nominal Salary

Price Index

**X**

**1**

**0**

**0**



Real Salary  $=$  base

1,000



**XX**

**1**

**0**

**0**



100

Real Salary *today* ==

1,000

**X**

**1**

**0**

**0**



200



= \$1,000

= \$500

# Calculating the Real Salary

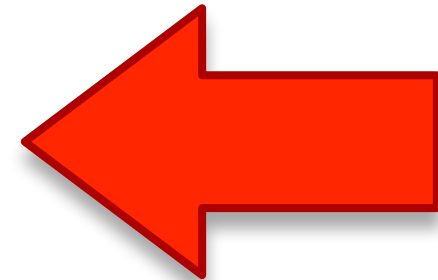
	Base Year	Today
Basket Cost	1,000	2,000
CPI	100	200
Nominal Salary	1,000	1,000
Real Salary	One full basket	Half a basket

\$500

**\$1,000**

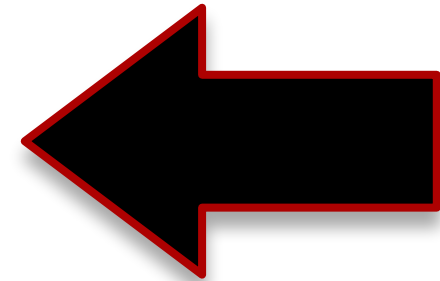


CPI



This is your **Real** Salary





This is your **Nominal** Salary

# Calculating the Real Salary

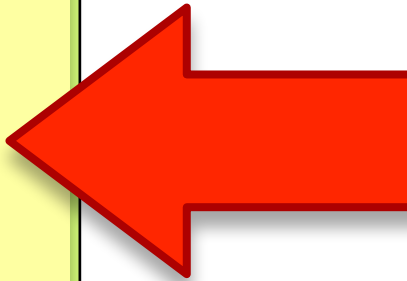
**Real** Salary =  $\frac{\text{Nominal Salary}}{\text{Price Index} \times \text{CPI}} \times 100$

	Base Year	Today
Basket Cost	1,000	2,000
CPI	100	200
Nominal Salary	1,000	1,000
Real Salary	\$1,000	\$500

**Real** Salary<sub>base</sub> =  $\frac{1,000}{100} \times 100 = \$1,000$

**Real** Salary<sub>today</sub> =  $\frac{1,000}{200} \times 100 = \$500$

 This is your **Nominal** Salary

 This is your **Real** Salary

# Why is the CPI important?