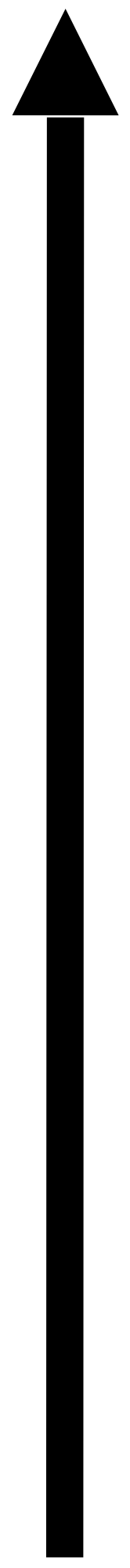
With 5% Inflation **CPI increase by 5%**



Today

Future


$1,000

CPI = 100

$$CPI = 100(1.05) = 105$$

$$(105)/(100)$$
$$=1.05$$

Multiply by 1.05

$1,000(1.05) = $1,050

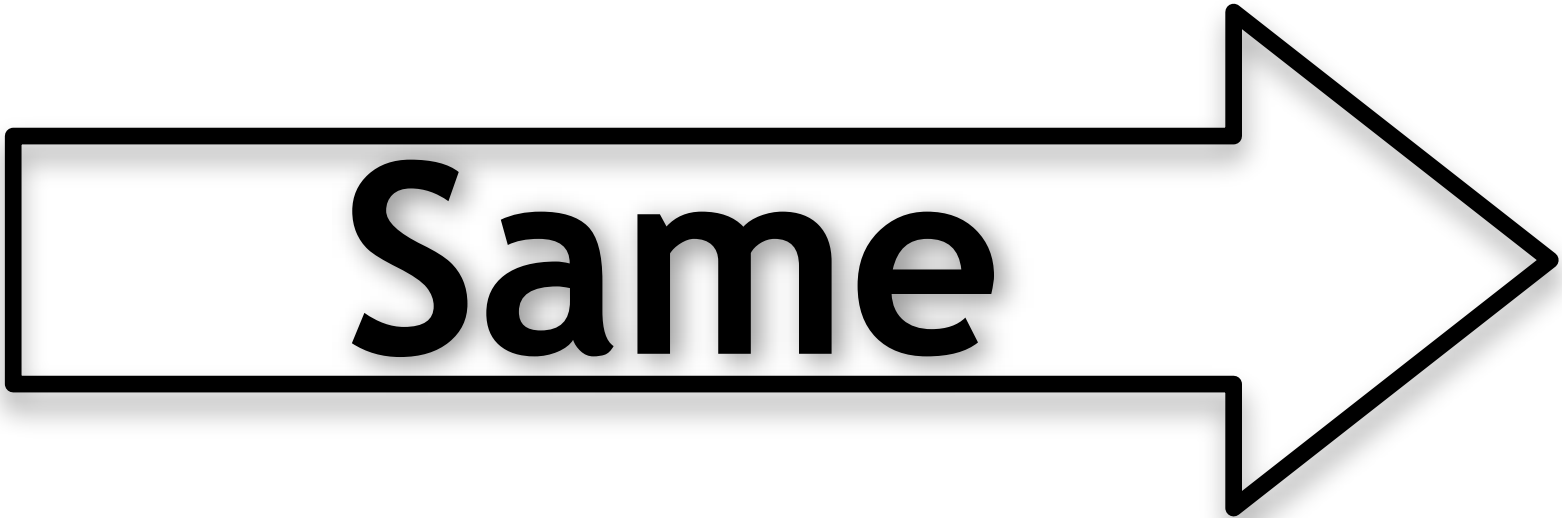
If nominal stays the same while prices increase, Real salary decrease

Real Salary = (1,000/100)*100 $1,000

Real Salary = (1,050/105)*100
$1,000

Real Salary = $1,000

Real Salary =
(1,000/105)*100
$952

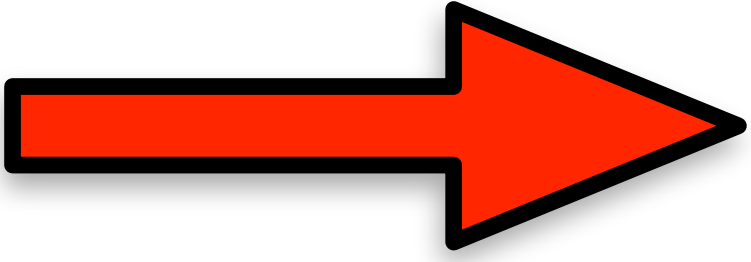

Same


Dropped

If nominal increase less than inflation, Real salary decrease

Real Salary = (1,030/105)*100 $981

If increase in Nominal Salary is equal to increase in Prices, Real salary stays the same



To find the equivalent $

With 5% Inflation → CPI increase by 5%

CPI = 100

Today

$1,000

CPI = 100(1.05) =105

Future

$1,000(1.05) = $1,050

Real Salary = (1,000/100)*100

$1,000

Same

Real Salary = (1,050/105)*100

$1,000

If nominal increase less than inflation, Real salary decrease

Real Salary = $1,000

Dropped

Real Salary = (1,030/105)*100

$981

Inflation Costs