



Labor Contract: "Employer will increase workers' salaries **by** CPI Inflation"



Employer

To avoid a drop in **real** salary, the **nominal** salary  
must increase by inflation



Employee

Salaries remain the same

With a massive drop in prices  
(and the same nominal salary)  
workers get an increase in  
their Real Salary



The CPI  
reports **no**  
change in  
prices



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We **do not** calculate the CPI correctly: **New Goods Bias**