

	Base	Today
Basket Cost	\$1,000	\$2,000
Nominal Wage	\$1,000	\$1,000
CPI	100	200



Full
basket



Real Wage =

Nominal Wage

Price index

x

1

0

0



Real Wage =

1,000

X

1

0

0

[REDACTED]

100

Real Wage today =

x

1

0

0

200

=

\$1,000,000

= \$500

Real Salary
gives the “real”
buying power



	Base	Today
Basket Cost	\$1,000	\$2,000
Nominal Wage	\$1,000	\$1,000
CPI	100	200

Full basket

Real Salary gives the “real” buying power

$$\text{Real Wage}_{\text{base}} = \frac{1,000}{100} \times 100 = \$1,000$$

$$\text{Real Wage}_{\text{today}} = \frac{1,000}{200} \times 100 = \$500$$

Which offer is better?

Colombia

\$500,000 Pesos



Bolivia

\$1Million Bolivianos

