



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 must increase by  
233% to "compensate  
workers for the increase in  
prices"

Workers substituted high  
priced goods and **did not**  
suffer a **233%** increase in  
prices



The CPI  
reports **233%**  
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Employer



Employee

We **do not** calculate the CPI correctly: **Substitution** Bias