Because items and quantities in the basket are fixed, the CPI does not account for substitutions consumers do in response to higher prices

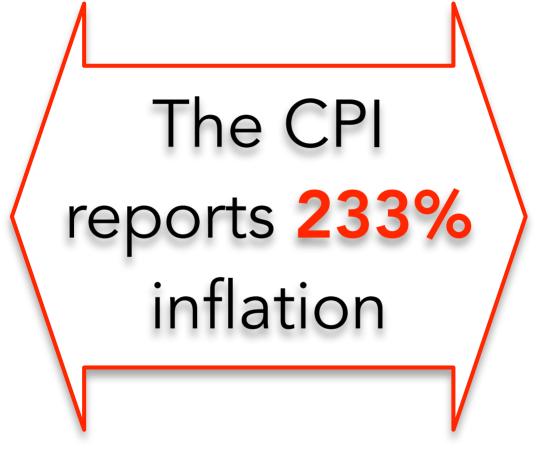CPI uses **old** quantity with new price

10
apples

$0.30/each

10
apples

$1/each

Cost of the basket = 10x0.3 = $3

Cost of the basket =

10x1 = $10

We do not calculate the CPI correctly: Substitution Bias

The CPI reports **233%** inflation

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