Real Salary =

Nominal Salary

Price Index

X 100

$$\text{Real Salary}_{\text{base}} =$$

1,000

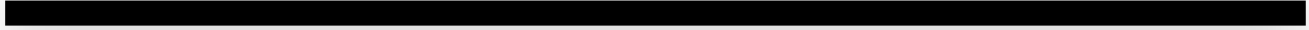
X 100

100

$$\text{Real Salary}_{\text{today}} =$$

1,000

X 100



200

= $1,000

= $500

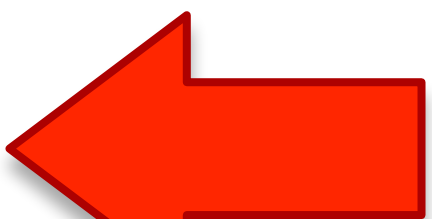
Calculating the Real Salary

	Base Year	Today
Basket Cost	1,000	2,000
CPI	100	200
Nominal Salary	1,000	1,000
Real Salary	One full basket	Half a basket

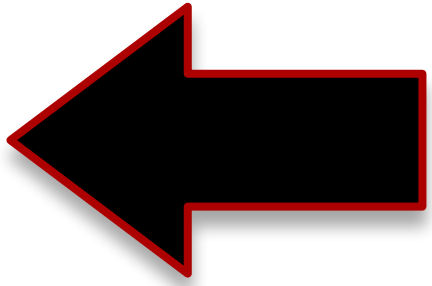
$500

$1,000


CPI



This is your Real Salary



This is your Nominal Salary


CPI

If prices double

With the same salary you buy only half

This formula calculates the buying power of a given dollar amount

Calculating the Real Salary

$$\text{Real Salary} = \frac{\text{Nominal Salary}}{\text{Price Index (CPI)}} \times 100$$

	Base Year	Today
Basket Cost		
CPI	100	200
Nominal Salary		
Real Salary	$1,000	$500

If prices double

With the same salary you buy only half

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

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

This is your Nominal Salary

This is your Real Salary

This formula calculates the buying power of a given dollar amount

Using the CPI: Comparing values across Countries