



We do not calculate the CPI correctly: New Goods Bias

In the year when the basket was built, 10 Floppy disks were commonly used: For \$7 each floppy had 2MB of memory

CPI uses old quantity with new price

\$7/each

With time, **new goods** become  
available: For the **same \$7**  
consumers now get **256,000MB** of  
memory: **a massive drop in price!**

Cost of  
the basket

**20 x 7**

**\$140**

20 Floppy  
Disks





1 Memory  
Stick



Cost of  
the basket

$$20 \times 7$$

\$140

\$7/each



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