10

True Cost of Inflation: Arbitrary redistribution of income from workers to employers

CPI = 200

CPI = 204

2009 ──────────────────→ 2019

Inflation =

204

200

x 100 = 2%

If your Nominal wage stays the same between 2009 and 2019

$$\text{Real Wage} = \frac{60{,}000}{200} \times 100 = 30{,}000$$

$$\text{Real Wage} = \frac{60,000}{204} \times 100 = 29,400$$

Your Real wage decrease

Nominal Wage = 60,000

Nominal Wage = 60,000

Individuals whose incomes increase less than inflation, lose purchasing power

Employers who enjoyed sale prices rising while wages paid remain the same or increase less than inflation, **gain** purchasing power

Nominal Salary = **60,600**

If your Nominal salary increase less than 2% between 2009 and 2019

Real Salary = $\dfrac{60{,}000}{200}$ x 100 = 30,000

Real Salary = $\dfrac{60{,}600}{204}$ x 100 = 29,706

True Cost of Inflation: Arbitrary redistribution of income from workers to employers

CPI = 200

CPI = 204

2009 ⟶ 2019

Nominal Wage = 60,000   Inflation $= \dfrac{204 - 200}{200} \times 100 = 2\%$ Nominal Salary = **60,600**

If your Nominal salary increase less than 2% between 2009 and 2019

Real Salary $= \dfrac{60,000}{200} \times 100 = 30,000$ Real Salary $= \dfrac{60,600}{204} \times 100 = 29,706$

Your Real wage decrease

Individuals whose incomes increase less than inflation, lose purchasing power

Employers who enjoyed sale prices rising while wages paid remain the same or increase less than inflation, gain purchasing power