

Increase in productivity = 3%

Increase in Prices (Inflation = 2%)

Compensation for rising
prices to keep you from
earning less in real terms

Compensation for your
stellar performance

Mistake #1: The "Robbery Coefficient"



Suppose that...

When in fact, they
earned only 3% extra



Workers mistakenly
believe they "earned"
5% and inflation
"robbed" them of 2%"

Increase in wages = 3 + 2 = 5%

and to compensate for inflation,
they got an additional 2%

With zero inflation, the wage
increase would have been only 3%

Mistake #1: The "Robbery Coefficient"

Increase in productivity = 3% Compensation for your stellar performance

Increase in Prices (Inflation = 2%) Compensation for rising prices to keep you from earning less in real terms

Increase in wages = 3 + 2 = 5%

Workers mistakenly believe they "earned" 5% and inflation "robbed" them of 2%

When in fact, they earned only 3% extra and to compensate for inflation, they got an additional 2%

With zero inflation, the wage increase would have been only 3%

Suppose the Basket has only two goods: