

Real Salary =

Nominal Salary

Price Index

X

1

0

0



Real Salary base =

1,000

XX

1

0

0



100

Real Salary *today* ==

1,000

X

1

0

0



200

= \$1,000

= \$500

Calculating the Real Salary

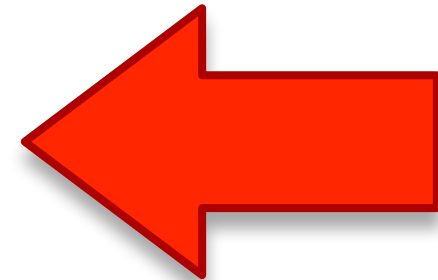
	Base Year	Today
Basket Cost	1,000	2,000
CPI	100	200
Nominal Salary	1,000	1,000
Real Salary	One full basket	Half a basket

\$500

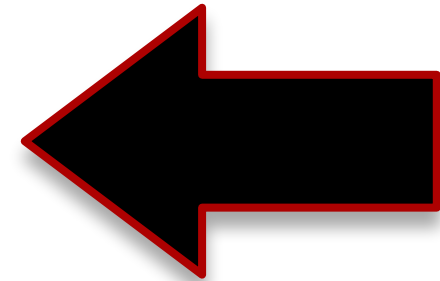
\$1,000



CPI



This is your **Real** Salary



This is your **Nominal** Salary

Calculating the Real Salary

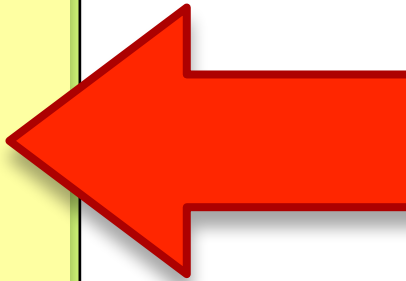
Real Salary = $\frac{\text{Nominal Salary}}{\text{Price Index} \times \text{CPI}} \times 100$

	Base Year	Today
Basket Cost	1,000	2,000
CPI	100	200
Nominal Salary	1,000	1,000
Real Salary	\$1,000	\$500

Real Salary_{base} = $\frac{1,000}{100} \times 100 = \$1,000$

Real Salary_{today} = $\frac{1,000}{200} \times 100 = \500

 This is your **Nominal** Salary

 This is your **Real** Salary

Why is the CPI important?