

How do I check that in fact \$64,000 in Boston has the same buying power as \$32,000 in Kansas?

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

$$\text{Real Salary}_{\text{Kansas}} = \frac{32,000}{125} \times 100$$

$$\text{Real Salary}_{\text{Boston}} = \frac{64,000}{250} \times 100$$

≡ 25,600

= 25,600



Same Real Value

Same buying power

CPI = 125

CPI = 250

Kansas City



Boston

To calculate "buying power" we calculate **Real** Values:

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Kansas City  Boston

$$\text{Real Salary}_{\text{Kansas}} = \frac{32,000}{125} \times 100 = 25,600$$

$$\text{Real Salary}_{\text{Boston}} = \frac{64,000}{250} \times 100 = 25,600$$

Same Real Value
Same buying power



Using the CPI: Inflation Calculator

This site finds the equivalencies for
dollars in different years

<http://data.bls.gov/cgi-bin/cpicalc.pl>