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


CPI = 200
2009
CPI = 204
2019

Inflation =

204


200

x 100 = 2%

- 200

If your Nominal wage stays the same between 2009 and 2019

Real Wage = 60,000


200

x 100 = 30,000

Real Wage = 60,000

204

x 100 = 29,400

Your Real wage decrease

Nominal Wage = 60,000

Nominal Wage = 60,000

Individuals whose incomes do not increase when prices increase lose purchasing power

Employers who enjoyed sale prices rising while wages paid remain the same, gain purchasing power

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

CPI = 200 → CPI = 204

2009 → 2019

Nominal Wage = 60,000

$$\text{Inflation} = \frac{204 - 200}{200} \times 100 = 2\%$$

Nominal Wage = 60,000

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

Individuals whose incomes do not increase when prices increase lose purchasing power

Employers who enjoyed sale prices rising while wages paid remain the same, gain purchasing power