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CPI uses old quantity with new price

10  
apples



\$0.30/each

10  
apples



\$1/each

Cost of the

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$$10 \times 0.3 = \$3$$



Cost of the  
basket =

$$10 \times 1 = \$10$$

We do not calculate the CPI correctly: Substitution Bias



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reports **233%**  
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**\$1/each**



To avoid a drop in **real** salary, the **nominal** salary **must**  
**increase by inflation**