

We **do not** calculate the CPI correctly: **Quality** Bias

In the year when the basket was built, 1 computer (4KB of memory) was commonly used

CPI does not distinguish differences in quality

\$700

With time, **quality improves**: For the **same \$700** consumers now get **8GB** of memory: **a massive drop in price!**

Cost of
the basket

1 x 700

\$700

1 Computer



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