We do not calculate the CPI correctly: New Goods Bias

In the year when the basket was built, 10 Floppy disks were commonly used: For $7 each floppy had 2MB of memory

CPI uses **old** quantity with new price

$7/each

With time, new goods become available: For the **same** $7 consumers now get 256,000MB of memory: a massive drop in price!

Cost of the basket

20 x 7

$140

20 Floppy Disks


1 Memory Stick
SanDisk

Cost of the basket

20 x 7

$140


$7/each


The CPI
reports **no**
change in
prices

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