



Increase in productivity = 3%

Increase in Prices (Inflation = 2%)

Compensation for rising  
prices to keep you from  
earning less in real terms

Compensation for your  
stellar performance

# Mistake #1: The "Robbery Coefficient"



Suppose that...



When in fact, they  
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Workers mistakenly  
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5% and inflation  
"robbed" them of 2%"

Increase in wages = 3 + 2 = 5%

and to compensate for inflation,  
they got an additional 2%

With zero inflation, the wage  
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Increase in productivity = 3%      Compensation for your stellar performance

Increase in Prices (Inflation = 2%)      Compensation for rising prices to keep you from earning less in real terms

Increase in wages =  $3 + 2 = 5\%$

Workers mistakenly believe they "earned" 5% and inflation "robbed" them of 2%

When in fact, they earned only 3% extra and to compensate for inflation, they got an additional 2%

With zero inflation, the wage increase would have been only 3%

Suppose the Basket has only two goods: