

Labor Contract: "Employer will increase workers' salaries **by** CPI Inflation"



Employer

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



Employee

Salaries must increase by
233% to "compensate
workers for the increase in
prices"

Workers substituted high
priced goods and **did not**
suffer a **233%** increase in
prices



The CPI
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We **do not** calculate the CPI correctly: **Substitution** Bias