Increase in productivity = 3%

Increase in Prices (Inflation = 2%)

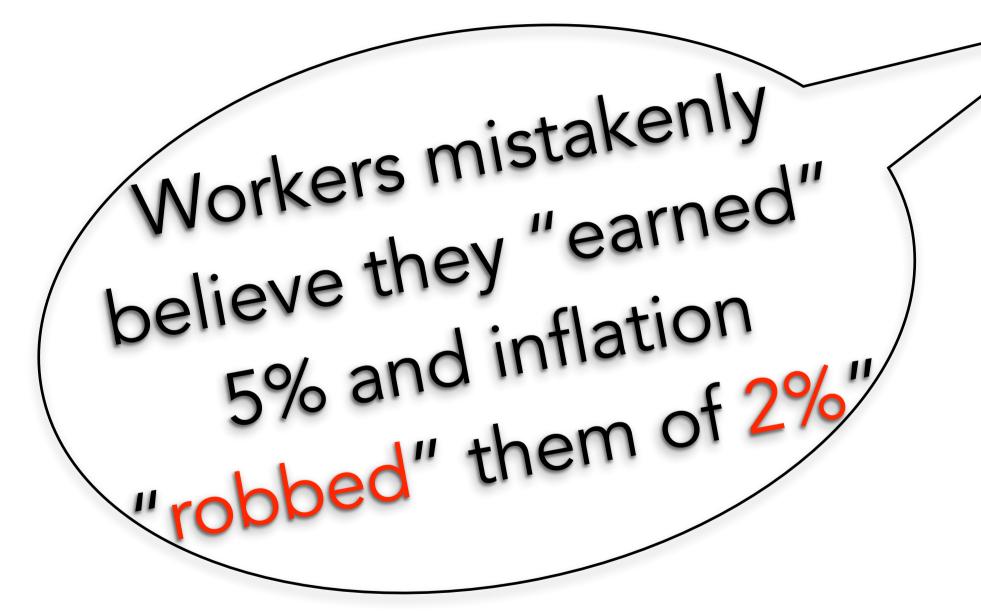
Compensation for rising prices to keep you from earning less in real terms

Compensation for your stellar performance

Mistake #1: The "Robbery Coefficient"

Suppose that ...

When in fact, they earned only 3% extra



Increase in wages = 3+2 = 5%

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

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

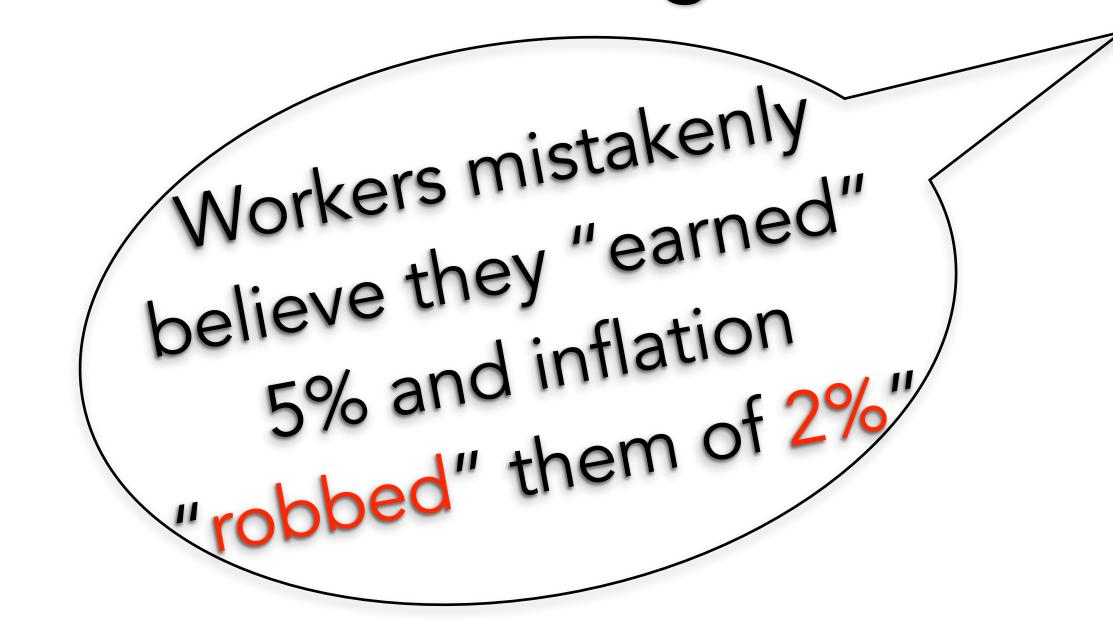
Mistake #1: The "Robbery Coefficient"

Increase in productivity = 3%

Compensation for your stellar performance Compensation for rising

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

Increase in wages = 3+2 = 5%



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: