

## Calculation of Inflation from Salaries Instead of Consumer Products: A Logical Exercise

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**Abstract :** Inflation can be calculated from either the prices of consumer products or from salaries. This paper presents a logical exercise that shows it is easier to calculate inflation from salaries than from consumer products. While the prices of consumer products may change due to technological advancement, such as automation, which must be corrected for, salaries do not. If technological advancements are not accounted for within calculations based on consumer product prices, inflation can be confused with real wage changes, since both inflation and real wage changes affect the prices of consumer products. The method employed in this paper is a logical exercise. Logical arguments are presented that suggest the existence of many different feasible ways by which inflation can be determined. Then a short mathematical exercise will be presented which shows that one of these methods &ndash;using salaries &ndash; contains the fewest number of unknown parameters, and hence, is the preferred method, since the risk of mistakes is lower. From the results, it can be concluded that salaries, rather than consumer products, should be used to calculate inflation.

**Keywords :** inflation, logic, math, real wages

**Conference Title :** ICESPE 2017 : International Conference on Economic Sociology and Political Economy

**Conference Location :** Copenhagen, Denmark

**Conference Dates :** June 11-12, 2017