Inflation and Wages

A company in a country with inflation decides to increase the wages of its employees. The salary at the company is $50,000 per year in 2020. The inflation rate between 2021 and 2021 is 30%.

1. If the company wants to keep its employees' purchasing power constant, what should the salary be in 2021?
2. Now suppose the first 3 months of 2021 experienced the following price increases: January-February: 3%. February-March: 9%, March-April: 7%. What should the employees' salary be for April 2021 so that they do not lose purchasing power?

Solution

1. The salary should be $50000 * 1.3 = 65000$.

2. To obtain the inflation for the 3 months, we should multiply $1.03 * 1.09 * 1.07 = 1.201289$ and multiply this by the salary: $65000 * 1.201289 = 78083.785$