A New Guide to Post Keynesian Economics

Edited by
Richard P.F. Holt and
Steven Pressman

W R A Y

Money & Inflation

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Money and Inflation

2. Real Wages

In the economy, wages are always expressed in nominal terms, but they are adjusted by inflation to reflect changes in purchasing power. The real wage is the wage adjusted for inflation, and it is calculated as the wage divided by the price level. The real wage is therefore a measure of the purchasing power of wages.

The real wage is important because it affects the living standards of workers. If wages increase but the price level also increases, the real wage may not increase at all, or even decrease. This can happen if inflation is high. On the other hand, if wages increase faster than the price level, the real wage will increase, and workers' purchasing power will rise.

Inflation is therefore an important factor to consider in wage negotiations. Workers want wages that will keep up with inflation, while employers want wages that are lower than the price level to maintain profit margins.

Inflation is also important for economic policy. High inflation can lead to economic instability, as it can erode confidence in the currency and lead to speculative behavior. policymakers therefore aim to keep inflation low and stable.

There are several factors that can cause inflation. The most important are changes in the money supply, changes in demand for goods and services, and changes in the price level of inputs used in production.

Inflation can be measured using the Consumer Price Index (CPI) or the Gross Domestic Product Price Deflator (GDP deflator). These indices show the percentage change in the price level over time.

Inflation can be classified as either expected or unexpected. Expected inflation is inflation that is anticipated by market participants, and it can be caused by changes in monetary policy or changes in the economy. Unexpected inflation is inflation that is not anticipated by market participants, and it can be caused by shocks to the economy, such as changes in oil prices or weather conditions.

Inflation can also be classified as either demand-pull or cost-push. Demand-pull inflation occurs when the demand for goods and services is greater than the supply, leading to higher prices. Cost-push inflation occurs when the cost of inputs increases, leading to higher prices.

Inflation can have several effects on the economy. It can lead to higher unemployment, lower investment, and lower growth. It can also lead to higher interest rates, which can make borrowing more expensive and lead to lower investment.

Inflation can also lead to losses for savers. As prices rise, the purchasing power of savings decreases. This can make it difficult for savers to maintain their standard of living.

Inflation can also lead to losses for lenders. As prices rise, the real value of loans decreases. This can make it difficult for lenders to recover their principal.

Inflation can also lead to losses for borrowers. As prices rise, the real value of loans decreases. This can make it difficult for borrowers to pay back their debts.

Inflation can also lead to losses for workers. As prices rise, the real value of wages decreases. This can make it difficult for workers to maintain their standard of living.

Inflation can also lead to losses for companies. As prices rise, the real value of inputs increases. This can make it difficult for companies to maintain profit margins.

Inflation can also lead to losses for governments. As prices rise, the real value of taxes decreases. This can make it difficult for governments to fund public services.

Inflation can also lead to losses for pension funds. As prices rise, the real value of pensions decreases. This can make it difficult for retirees to maintain their standard of living.

Inflation can also lead to losses for insurers. As prices rise, the real value of insurance payments decreases. This can make it difficult for insurers to fund future payments.

Inflation can also lead to losses for advertisers. As prices rise, the real value of advertising decreases. This can make it difficult for advertisers to reach their target audience.

Inflation can also lead to losses for publishers. As prices rise, the real value of publications decreases. This can make it difficult for publishers to sell their products.

Inflation can also lead to losses for purveyors of luxury goods. As prices rise, the real value of luxury goods decreases. This can make it difficult for purveyors of luxury goods to sell their products.

Inflation can also lead to losses for purveyors of non-luxury goods. As prices rise, the real value of non-luxury goods decreases. This can make it difficult for purveyors of non-luxury goods to sell their products.

Inflation can also lead to losses for purveyors of investments. As prices rise, the real value of investments decreases. This can make it difficult for purveyors of investments to attract new clients.

Inflation can also lead to losses for purveyors of financial services. As prices rise, the real value of financial services decreases. This can make it difficult for purveyors of financial services to attract new clients.

Inflation can also lead to losses for purveyors of goods and services. As prices rise, the real value of goods and services decreases. This can make it difficult for purveyors of goods and services to attract new clients.

Inflation can also lead to losses for purveyors of money. As prices rise, the real value of money decreases. This can make it difficult for purveyors of money to attract new clients.

Inflation can also lead to losses for purveyors of information. As prices rise, the real value of information decreases. This can make it difficult for purveyors of information to attract new clients.


The document contains a paragraph discussing the concept of "the power of the people" and how it relates to the economy. It mentions that the power of the people can be harnessed to benefit the economy and that this is particularly relevant in the context of the current economic conditions. The paragraph goes on to say that the government and its policies are crucial in this regard, as they can either suppress or enhance the power of the people. The text also touches on the relationship between economic policies and technology, stating that both are interdependent and that innovation in technology can lead to improved economic conditions.

In summary, the document highlights the importance of considering the power of the people in economic decision-making and that technological advancements can play a significant role in this process.
The effects of a decoy may differ from those of a classical approach to risk.