Question #58933, Economics, Macroeconomics

After graduating from college in 2010, Art Major's starting salary is $50757.00. Suppose Art Major has a cost of living adjustment (COLA) clause, i.e. an escalator clause in his labor contract so that he will be able to maintain this same level of purchasing power in real terms in 2011 and 2012. Using the information in the table below, how much will Art Major be earning in 2011 and 2012 if his salary keeps up with inflation? Round your answers to the nearest dollar.

Year	cpi
2010	102.77
2011	104.29
2012	113.86

Answer:

Year	cpi	Wage
2010	102.77	$50757.00
2011	104.29	$50757.00/102.77·104.29=$51508
2012	113.86	$51507.71/104.29·113.86=$56234