

CONCEPT: NOMINAL INCOME AND REAL INCOME

- Inflation can help measure the purchasing power of a household's income.
 - **Nominal Income** – the number of dollars received as wages, rent, interest, or profit
 - **Real Income** – The nominal income _____
 - > Real income measures the amount of goods and services that the nominal income can buy

$$Real\ Income = \frac{Nominal\ Income}{Price\ Index\ (in\ hundredths)}$$

> If nominal income increases at the same rate as the price index, then real income is _____

$$\% \Delta Real\ Income = \% \Delta Nominal\ Income - \% \Delta Price\ Level$$

EXAMPLE: DJ Money Face is the world's best DJ. In 2017, he earned \$20,000 playing the most popular music at nightclubs. He spent many nights practicing twisting knobs and holding one of the headphones to his ear. Audiences were so thrilled by his iTunes playlists that in 2018 he was able to earn \$25,000 selecting the most popular music. Use the following information regarding CPI to answer these questions:

- What was DJ Money Face's real income in 2017?
- What was DJ Money Face's real income in 2018?
- What was the percentage change in DJ Money Face's real income?

Year	CPI
2005	100
2017	118
2018	120