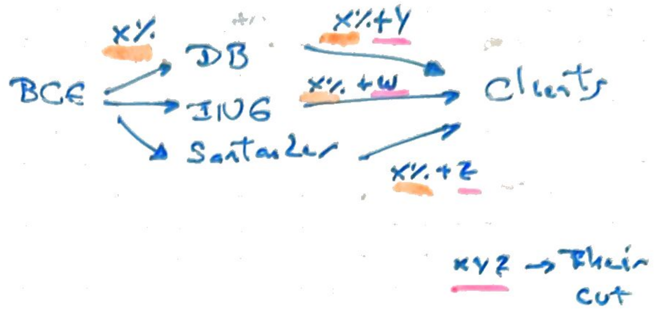
Interest Rates

→ Rate at which the central bank lends money to the commercial banks.

- Controlling these rates is the most common way to regulate the economy and the flow of money



Basic Scenarios:

Interests Rise
- Borrowing money costs more and fewer credits are made
- Less money is flowing, companies and people control their expenses
- Less spending slows down the economy
- Inflation tends to fall

Interests fall
- Borrowing is cheaper
- More money starts flowing and being spend/invested
- Inflation tends to rise

Nominal Interest Rate → The rate charged by the central Banks
Real Interest Rate → = Nominal Interest Rate − Inflation

(*) Could be negative, so the inflation eats the credit

Investments ~~depending~~ of the Interest Rates