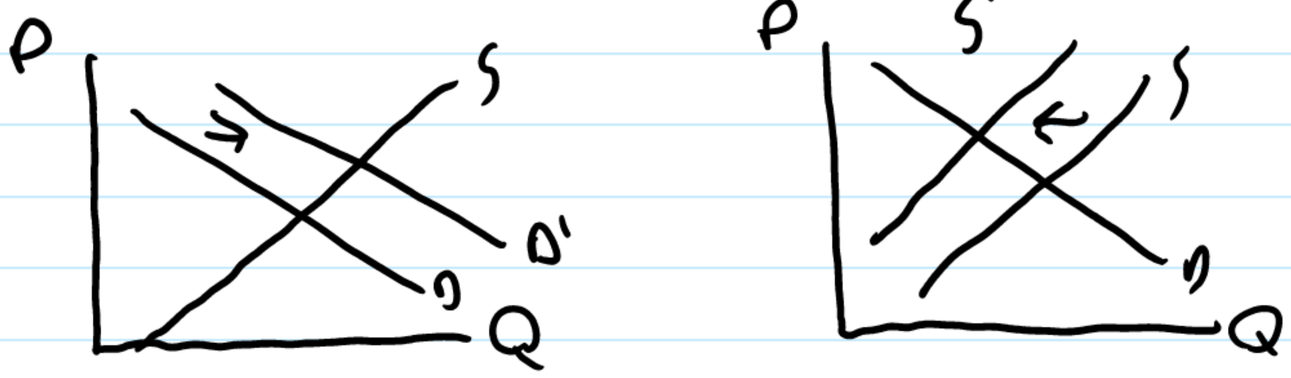
9.7 Inflation 1

Sunday, November 1, 2020 2:27 PM

m = annual rate of inflation

Not about relative prices! Is about price level increases over time



$1·(1+m)

Nominal value$_t$ = real $(1+m)^t$

12 m = 2% → $12(1.02)^5$

Inflation changes from year to year

Real = nom$_t$ / $(\Pi_{(1)})(1+m_t)$