7. Award: 0 out of 10.00 points

Suppose the real rate is 3.5 percent and the inflation rate is 5.1 percent. What rate would you expect to see on a Treasury bill? **(Do not round intermediate calculations and enter your answer as a percent rounded to 2 decimal places, e.g., 32.16.)**

Treasury bill rate		%

References

Worksheet	Learning Objective: 07-04 Outline the impact of inflation on interest rates.
Difficulty: 1 Basic	Section: 7.6 Inflation and Interest Rates

Suppose the real rate is 3.5 percent and the inflation rate is 5.1 percent. What rate would you expect to see on a Treasury bill? **(Do not round intermediate calculations and enter your answer as a percent rounded to 2 decimal places, e.g., 32.16.)**

Treasury bill rate	8.78+/-1%	%

Explanation:

Note: Intermediate answers are shown below as rounded, but the full answer was used to complete the calculation.

The Fisher equation, which shows the exact relationship between nominal interest rates, real interest rates, and inflation is:

$(1 + R) = (1 + r)(1 + h)$

$R = (1 + .035)(1 + .051) - 1$
$R = .0878$, or 8.78%