

Nominal
rate

0%

10% = 10%

10%

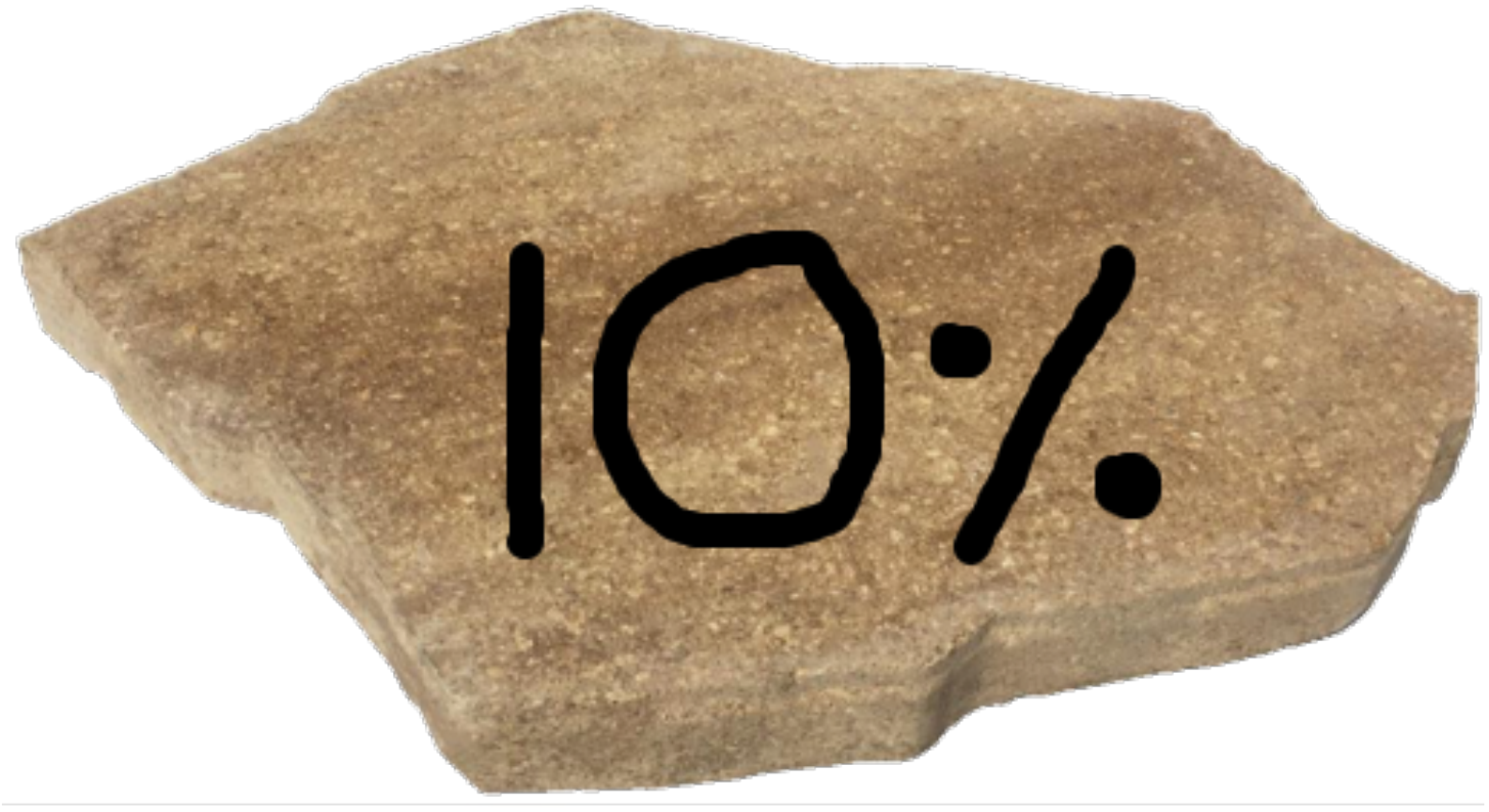
10% = 10% = 10%

$$10\% - 20\% = -10\%$$



All lenders need
is to guess
inflation correctly

Real Interest Rate =

A piece of brown, textured material, possibly a rock or a piece of wood, with the text "10%" written on it in a large, black, handwritten font. The material has a rough, granular surface and irregular edges. The text is centered on the flat top surface of the piece.

10%

Nominal Interest Rate – Inflation Rate

If inflation is 0% during
the life of the loan

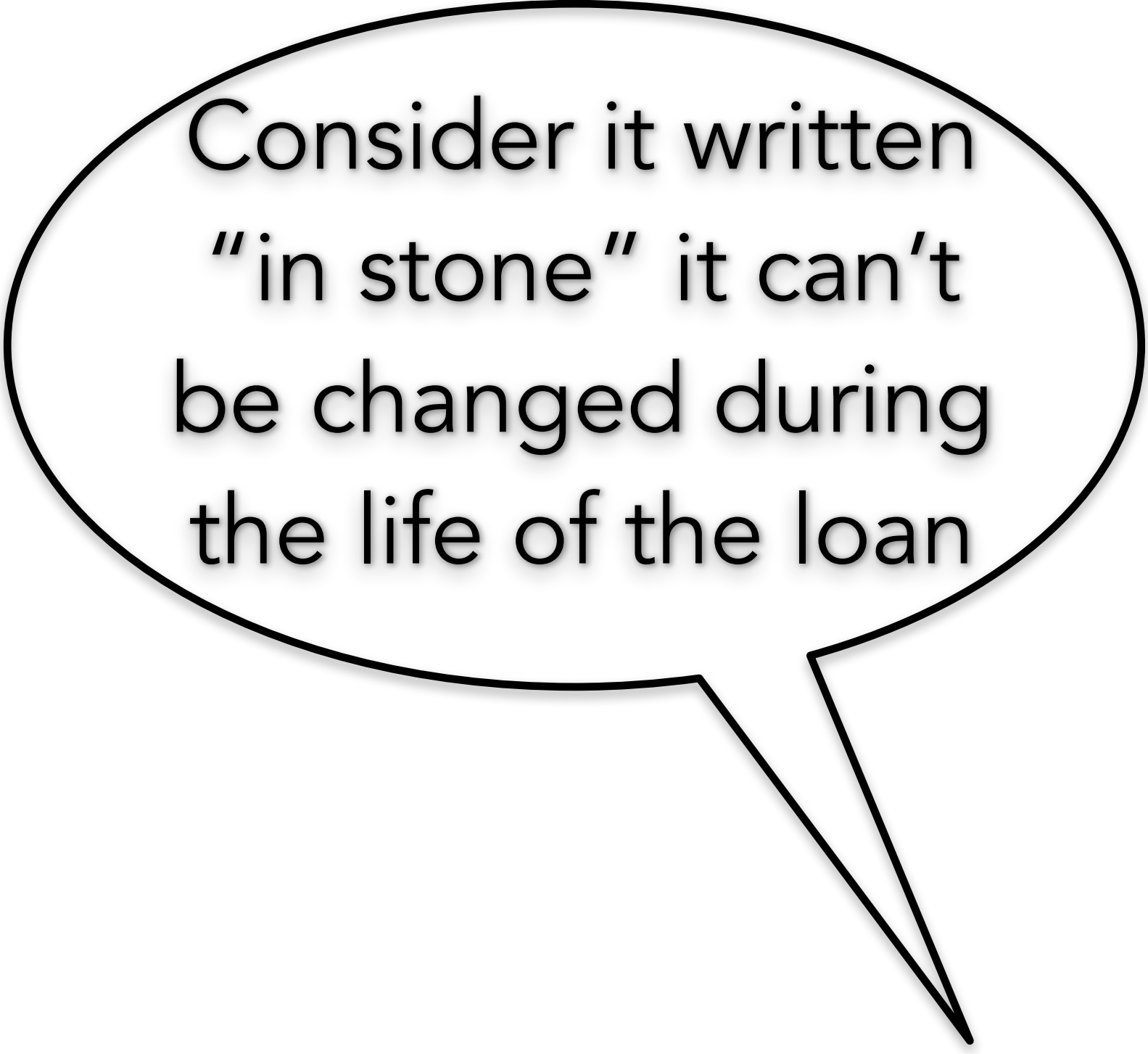
20%

If inflation is 10% during
the life of the loan


If inflation is 20% during
the life of the loan

A black-outlined speech bubble with a tail pointing towards the bottom right. Inside the bubble, the text "The interest rate written in a contract between lender and borrower" is written in a black, sans-serif font, centered and arranged in three lines.

The interest rate written
in a contract between
lender and borrower

A black-outlined speech bubble with a tail pointing towards the bottom right. Inside the bubble is text in a black, sans-serif font.

Consider it written
"in stone" it can't
be changed during
the life of the loan



All lenders need is
to charge the
correct Nominal
rate!

All lenders need is
to charge the
correct Nominal
rate!

All lenders need
is to guess
inflation correctly

$$\text{Real Interest Rate} = 10\% - 20\% = -10\%$$

Nominal Interest Rate – Inflation Rate

20%

If inflation is 20% during
the life of the loan

10%

U.S. Inflation Since 1914

