

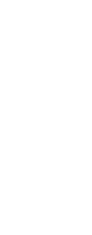
Today Lender lends \$1,000

Borrower must pay back \$1,000

CPI . 100

Lender needs \$1,050 to buy a full basket

Full Basket



Lender must protect for Inflation!

Cost = \$1,000

Cost = \$1,050

Tomorrow

Full Basket

Borrower pays back 51,000 only

Borrower pays back only 95% of what s/he borrowed



Borrower wins, lender loses

Lender must protect for Inflation!

CPI = 100 Today CPI =105 Tomorrow

Borrower wins, lender loses

full basket



Borrower
pays back
only 95% of
what s/he
borrowed



Cost = \$1,050

To protect from inflation, lender must charge interest