

1

3

CPI = 210

2020



CPI = ?

2021

You lend \$100,000 (one full basket) at 9% interest in 2020 to
be repaid in 2021

Loan = 1000,000

The borrower returns $= 100,000(1.09) = 109,000$



\$100,000

Full Basket




Full Basket

9% inflation means that the basket in 2021 costs 9% more:

$$\$100,000(1.09) = \$109,000$$

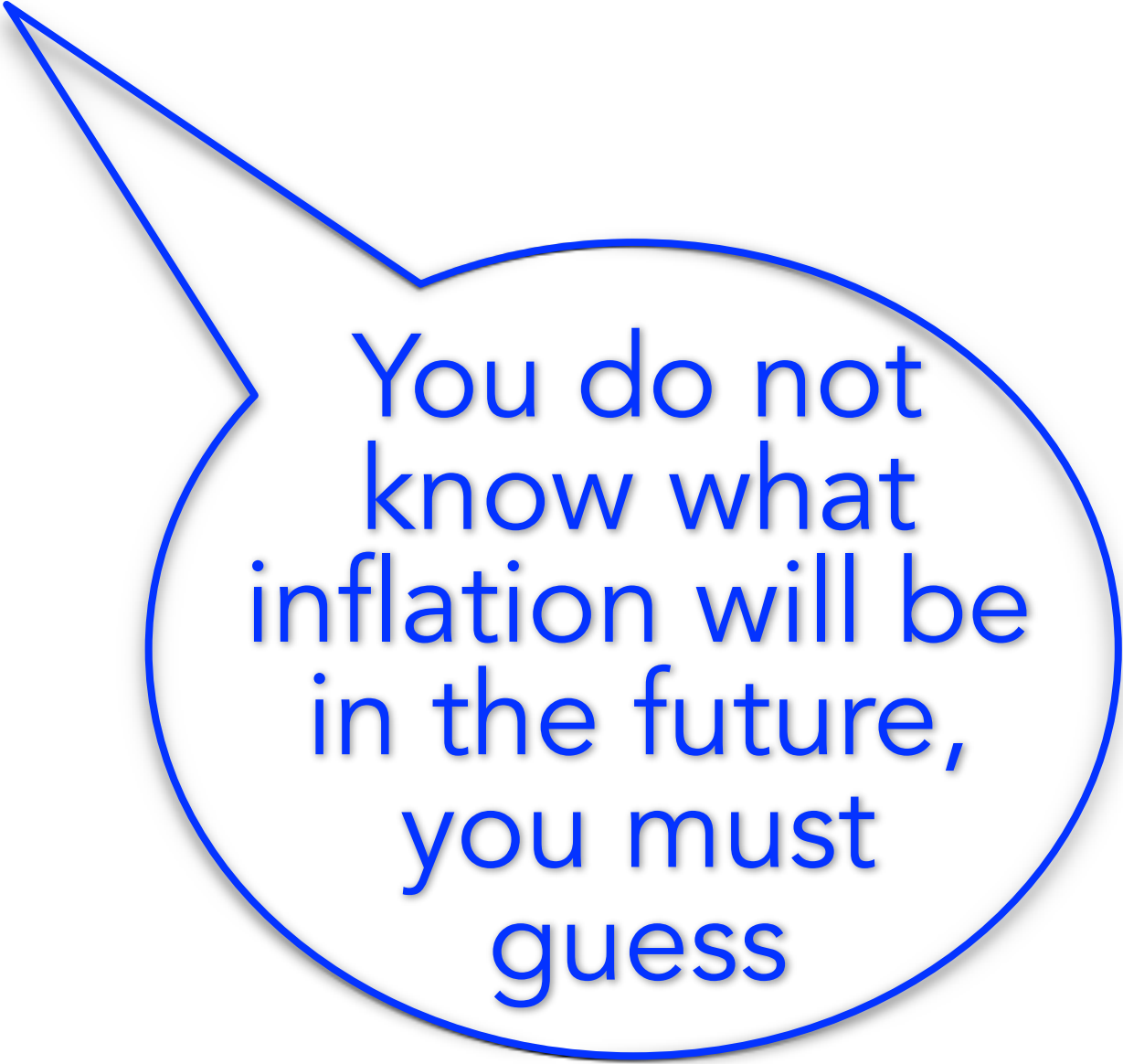
\$109,000

\$109,000 buys a full basket
but there is no money left



The borrower returns
a full basket, but **you**
earn zero interest

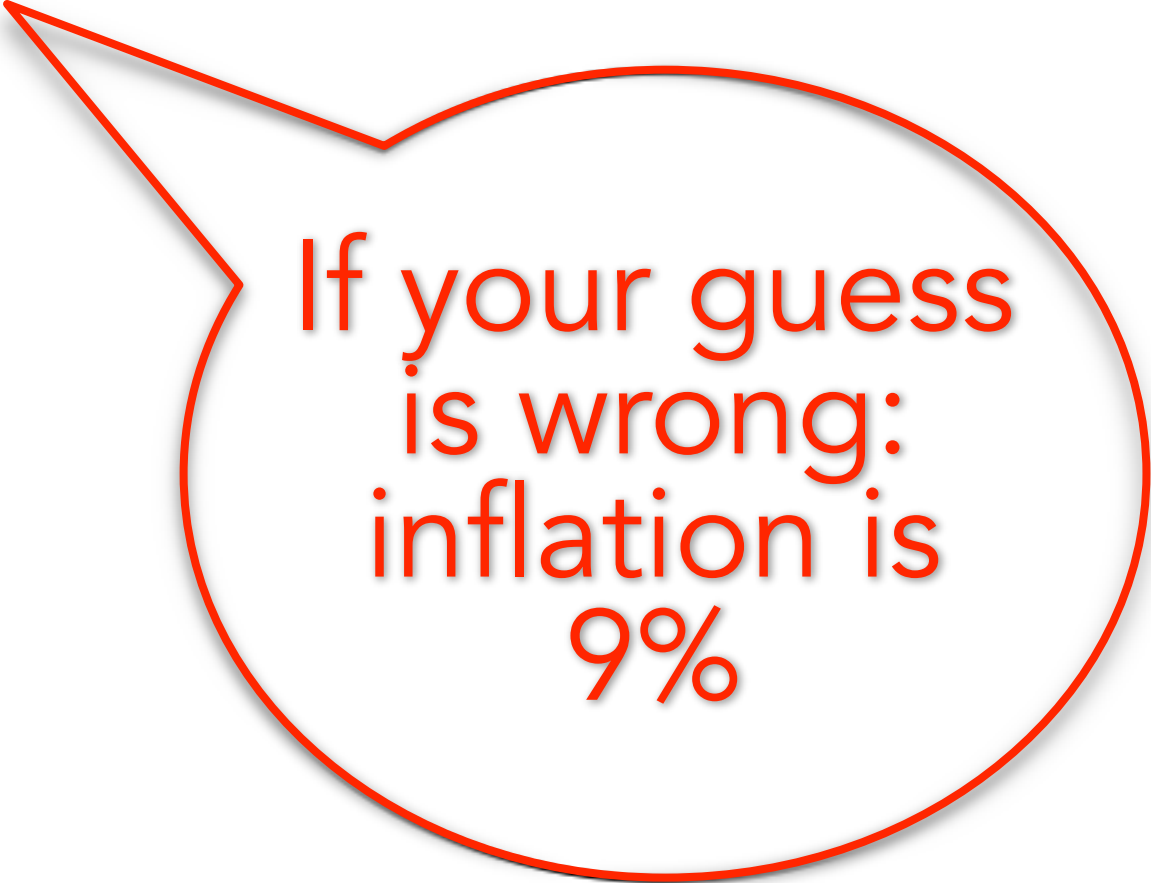
If lenders guess inflation wrong they could end up
earning zero interest



You do not
know what
inflation will be
in the future,
you must
guess

A digital illustration featuring a glowing blue crystal ball held by two dark-skinned hands. Inside the crystal ball, various currency symbols (dollar \$, euro €, and yen ¥) are floating and glowing. The background is a dark space with small white stars. Overlaid on the crystal ball in a large, bold, yellow font is the text: "You guess Inflation will be 5%".

You guess
Inflation will
be 5%



If your guess
is wrong:
inflation is
9%

CPI = 210

2020



CPI = ?

2021

If lenders guess inflation wrong they could end up earning zero interest



\$100,000

Full Basket



The borrower returns a full basket, but **you** earn **zero** interest

\$109,000



Full Basket



\$100,000

Full Basket