



$\sqrt{\%}$   
Nominal  
rate

0%

10% = 10%

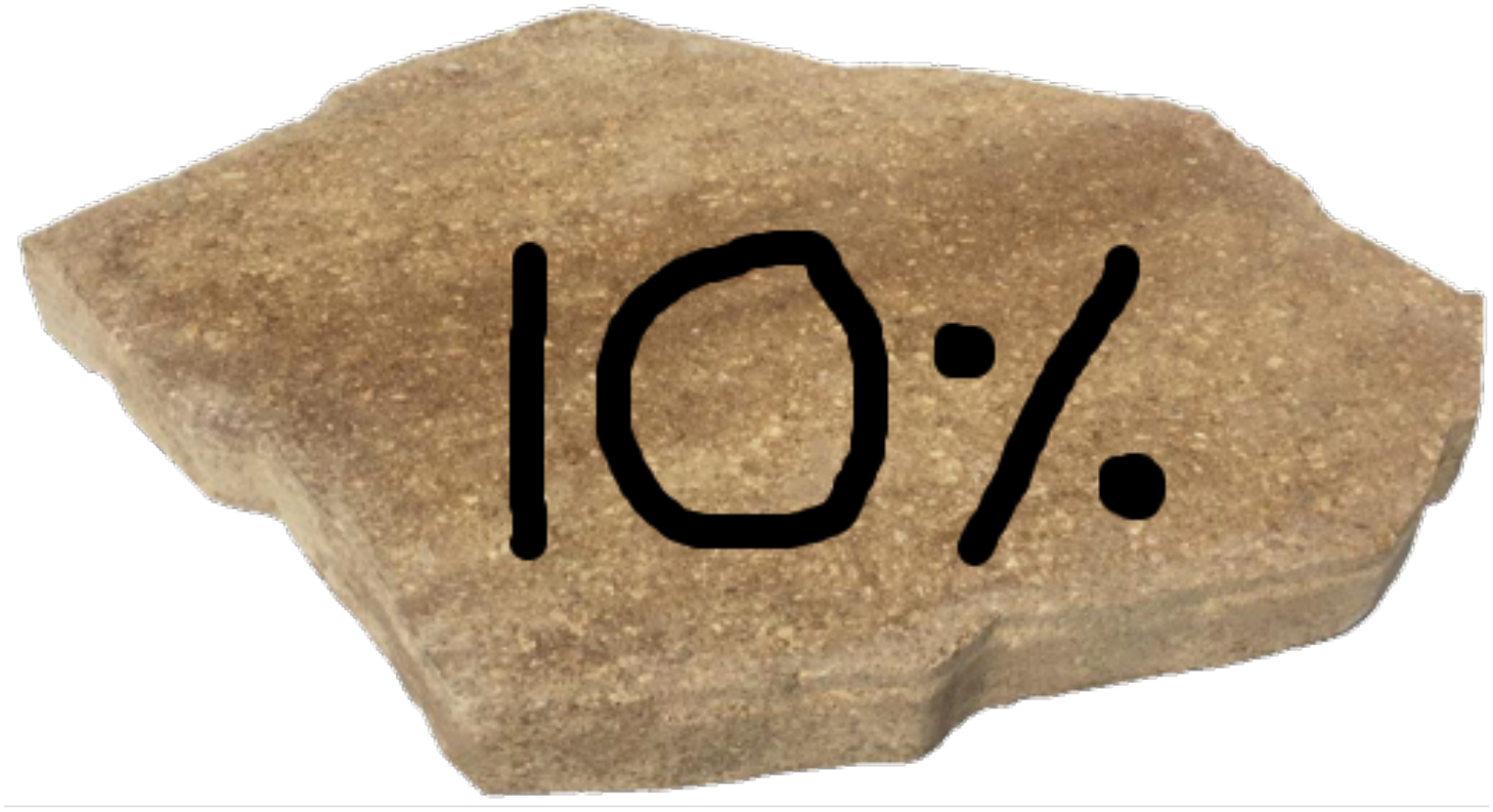
10%

10% = 10% = 10%

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

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 surface.

10%

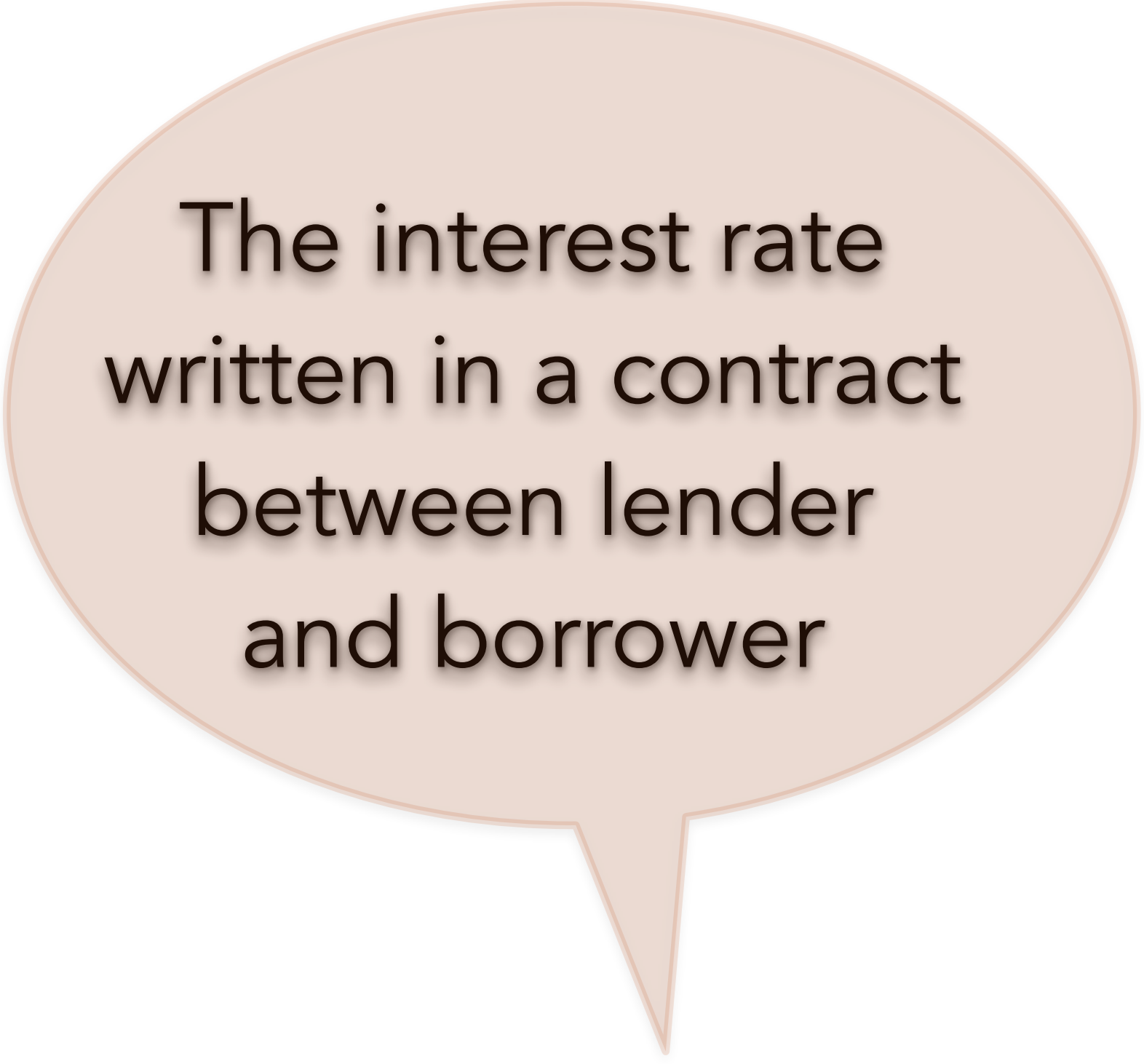
Nominal Interest Rate – Inflation Rate

If inflation is 0% during  
the life of the loan

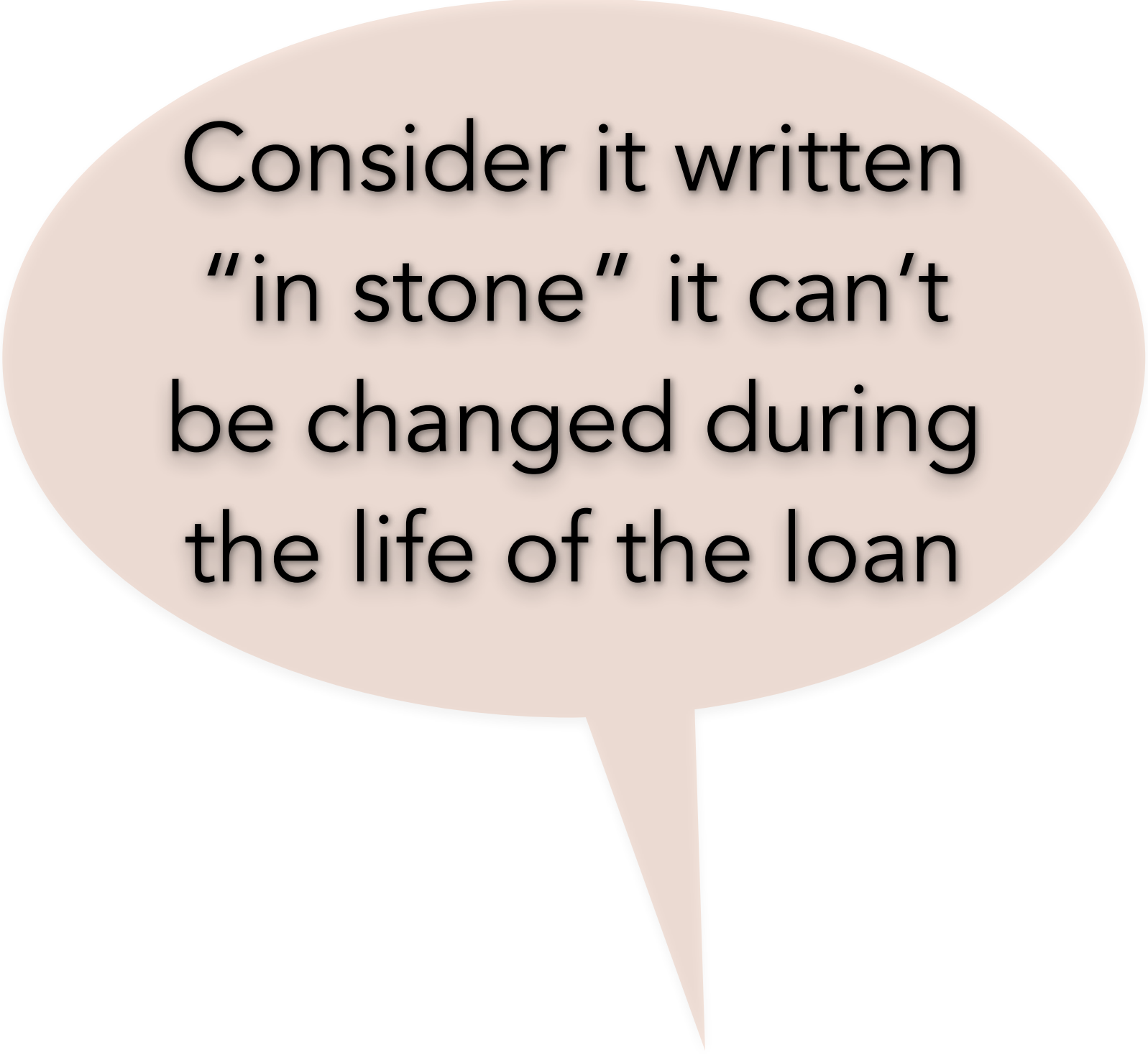
20%

If inflation is 10% during  
the life of the loan

If inflation is 20% during  
the life of the loan

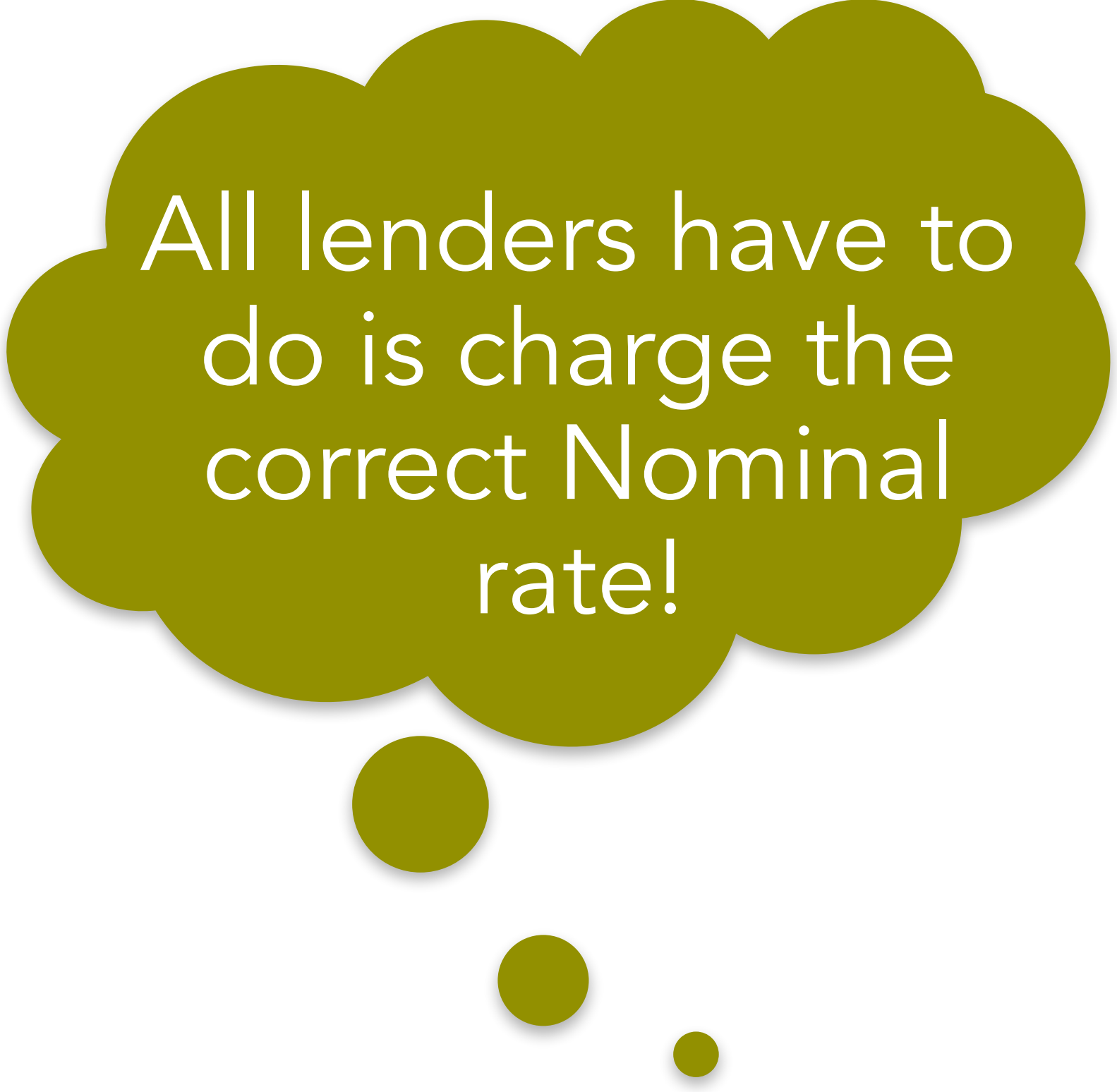


The interest rate  
written in a contract  
between lender  
and borrower



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





All lenders have to  
do is charge the  
correct Nominal  
rate!

The lender earns a  
positive real interest

The lender earns  
zero real interest

The lender earns a  
negative real interest



All lenders need  
to do is guess  
inflation correctly

All lenders have to do is charge the correct Nominal rate!

All lenders need to do is guess inflation correctly

negative real interest

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

Nominal Interest Rate – Inflation Rate

20%

If inflation is 20% during the life of the loan

10%

# U.S. Inflation Since 1914

