

1

3

CPI = 210

2024



CPI = ?

2025

You lend \$10,000 (one full basket) at 7% interest in 2024 to be repaid in 2025

Loan = 10,000

The borrower returns $= 10,000(1.07) = 10,700$



\$10,000

Full Basket



Full Basket

7% inflation means that the basket in 2025 costs 7% more:

$$\$10,000(1.07) = \$10,700$$

\$10,700

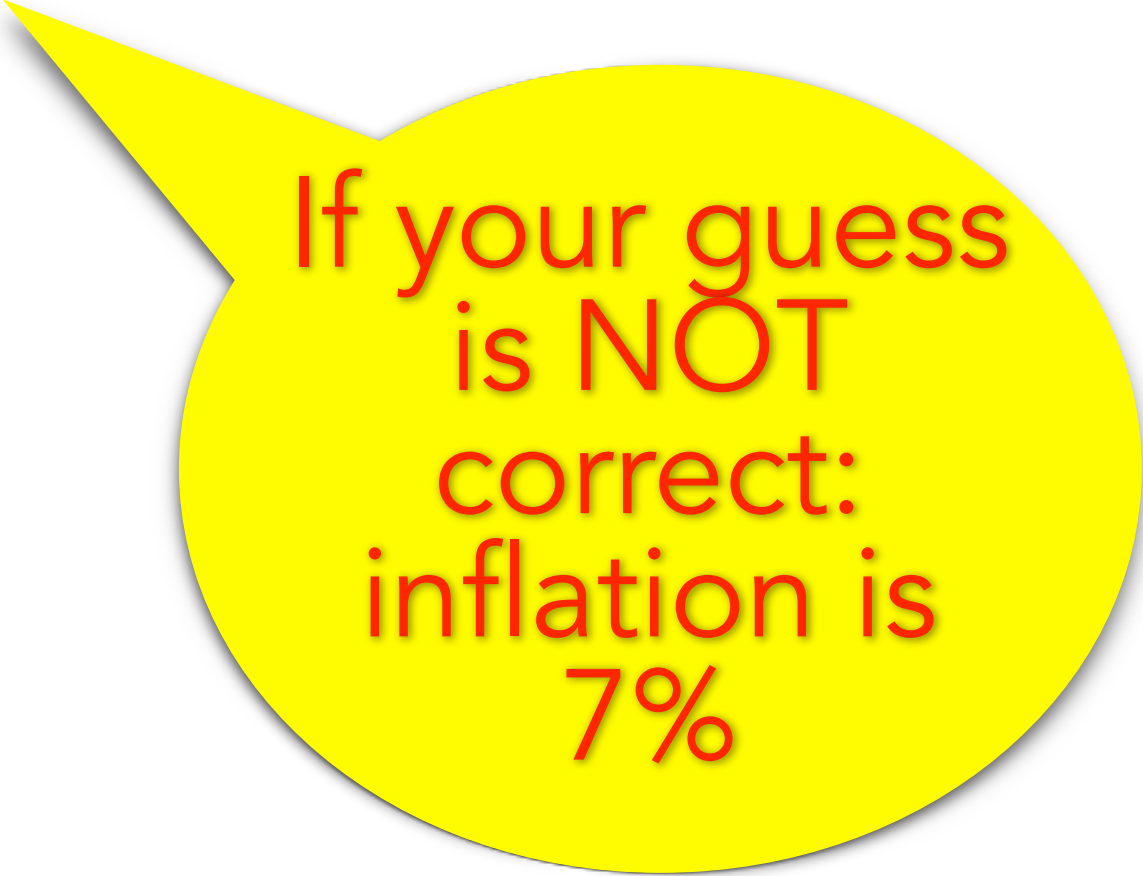
\$10,700 is just enough
to buy a full basket



The borrower paid
back the full basket but
no interest



**You guess
Inflation will
be 5%**



If your guess
is NOT
correct:
inflation is
7%

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

CPI = 210

2024



CPI = ?

2025

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



\$10,000

Full Basket



The borrower paid
back the full basket but
no interest



\$10,700

Full Basket

CPI = 210

2024



CPI = ?

2025

Loan = 10,000

You lend \$10,000 (one full basket) at 7% interest in 2024 to be repaid in 2025



\$10,000

Full Basket