



1

2

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




5% inflation means that the basket in 2025 costs 5% more:

$$\$10,000(1.05) = \$10,500$$

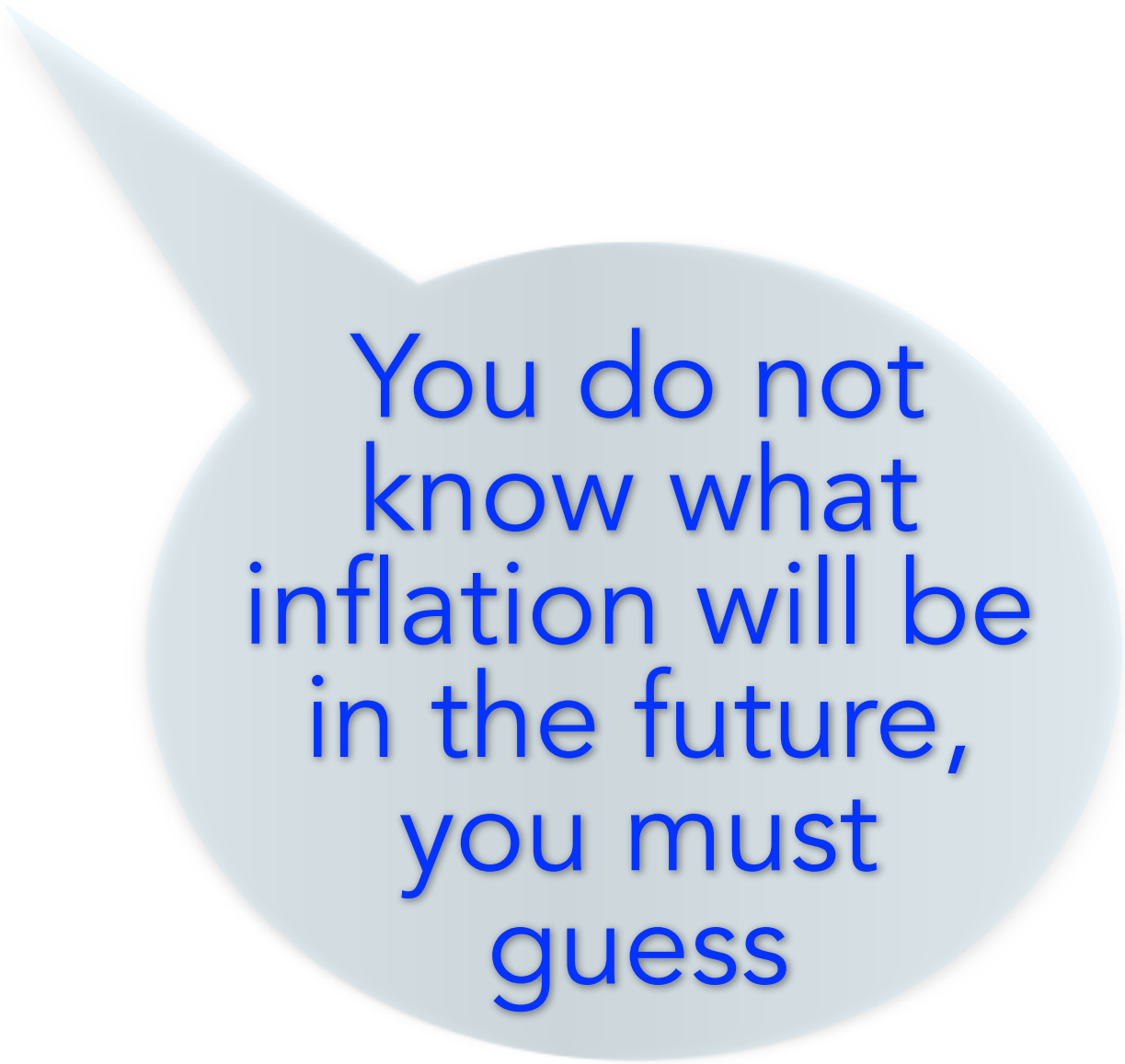
\$10,500

\$10,700 buys a full  
basket with \$200 extra




The borrower returns  
what s/he borrowed +  
\$200 interest

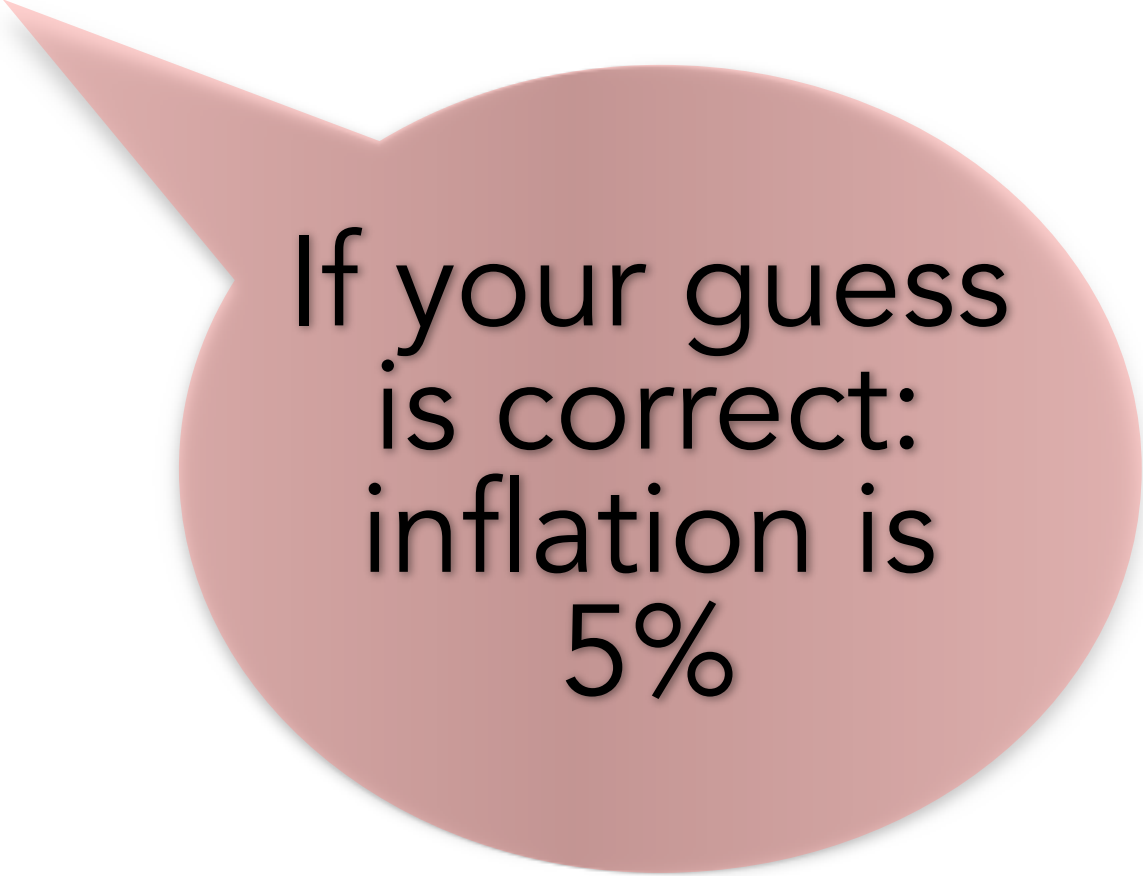
If lenders guess inflation correctly they are **not** hurt by inflation



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



**You guess  
Inflation will  
be 5%**



If your guess  
is correct:  
inflation is  
5%



CPI = 210

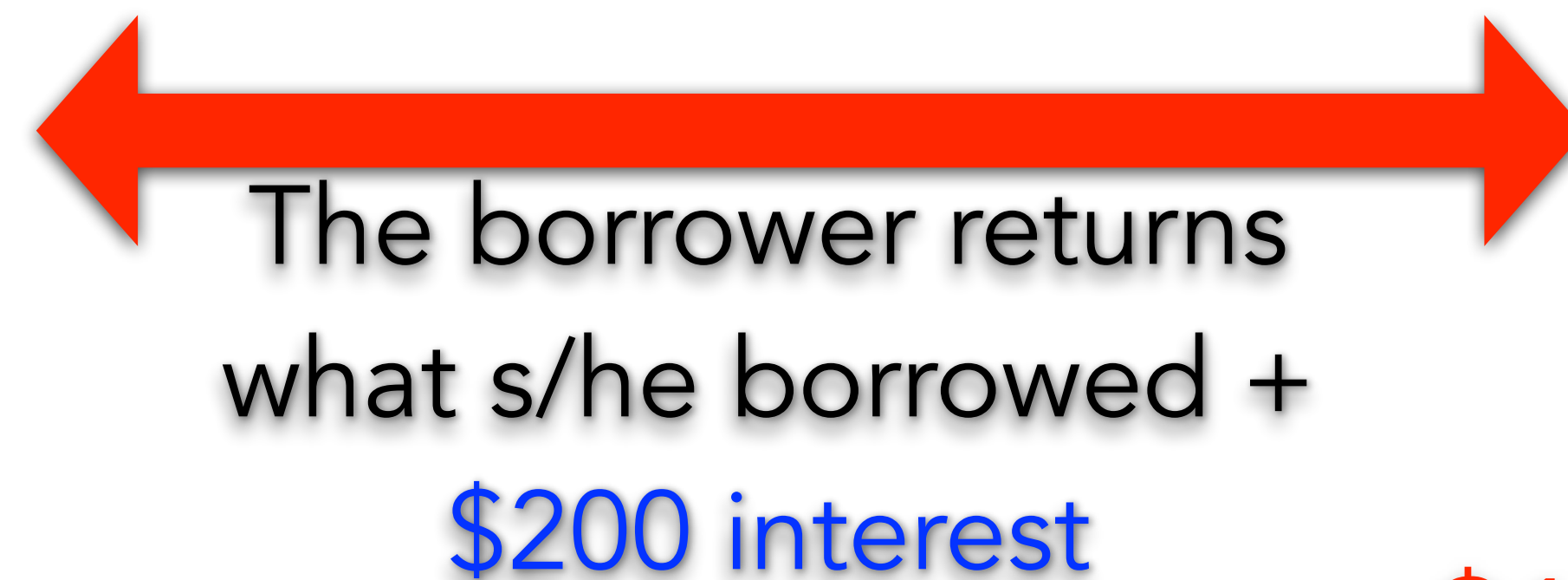
2024



CPI = ?

2025

If lenders guess inflation correctly they are **not** hurt by inflation





CPI = 210  
2024



CPI = ?  
2025

Loan = 10,000



\$10,000

Full Basket