



1

6

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



10% inflation means that the basket in 2025 costs 10% more:

$$\$10,000(1.1) = \$11,000$$

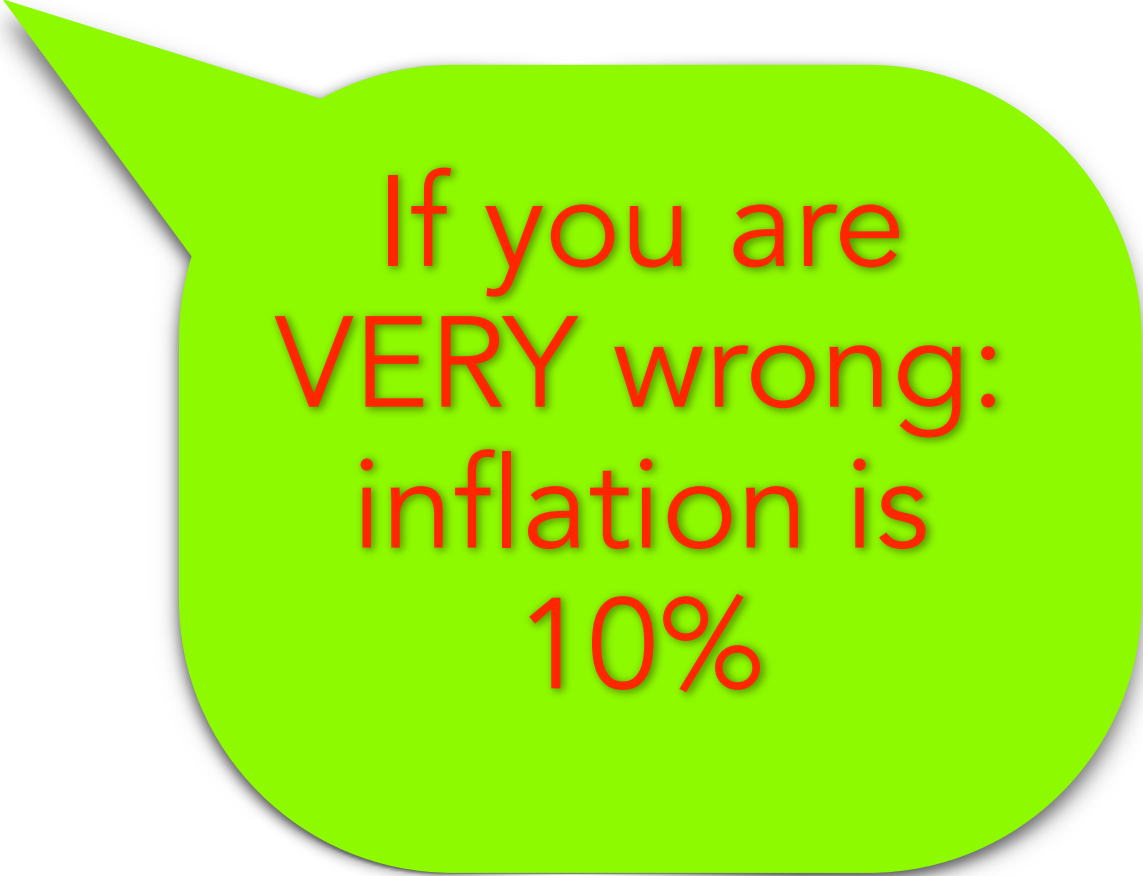
\$10,700 is NOT enough  
to buy a full basket



The borrower paid  
back **less** than s/he  
borrowed



**You guess  
Inflation will  
be 5%**



If you are  
**VERY** wrong:  
inflation is  
10%



\$11,000

If lenders guess inflation **very** wrong they end up  
giving money away!



CPI = 210

2024



CPI = ?

2025

If lenders guess inflation **very** wrong they end up giving money away!



\$10,000

Full Basket



The borrower paid back **less** than s/he borrowed



\$11,000

