

Module 14 Inflation: An Overview

Discussion: How would you feel if all prices in the economy doubled? How would you feel if all prices doubled and at the same time your wages doubled?

Website: inflationdata.com-historical inflation data

Class Activity: Getting Real with Interest Rates

Compute the answers to the following questions:

- 1.) Samantha invested \$2,500 of her savings in a certificate of deposit that pays an annual 4.25% rate of interest. The current annual inflation rate is 5%. Has Samantha made a wise investment from an economic perspective?
- 2.) William wants to earn a real annual interest rate on his investment of at least 7%. If the annual rate of inflation is 4%, what is the minimum nominal rate of interest William would be willing to accept on his investment?