Solutions

Each answer shows the steps, then the **result**.

2.1

- borrowers

2.2

- the cost to firms of changing their listed prices

2.3

- their nominal income is fixed while prices rise, so its real value (what it can buy) falls

3.1 B

3.2 B

3.3

(a)

- the borrower gains

(b)

- they repay a fixed nominal amount with money that is now worth less, so the real value repaid is lower than expected