Solutions

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

2.1

- real rate ≈ nominal rate − expected inflation

2.2

- $7\% - 3\% = 4\%$

2.3

- the nominal rate is the stated rate; the real rate subtracts inflation to give the true change in purchasing power

3.1 B

3.2 B

3.3

(a)

- $8\% - 5\% = 3\%$

(b)

- the borrower gains (actual real rate is only $8\% - 9\% = -1\%$)