CONCEPT: WHO IS AFFECTED BY INFLATION

● ***Inflation*** describes a general increase in prices over time

□ ***Anticipated Inflation*** or ***expected inflation*** is an estimate of the amount of inflation that will occur

□ ***Unanticipated inflation*** can cause problems with the amount of real income people receive

● Unanticipated inflation affects members of the economy in different ways. Members hurt by unanticipated inflation:

□ *Fixed-Income Receivers*: People who receive the same income while inflation occurs

> Example: Retired person living on a fixed pension; Landlords receiving fixed lease payments

> If the nominal income is constant while prices are rising, then the real income ___________

□ *Savers*: Rising prices hurt the purchasing power of accumulated savings

> Example: Hoarding cash under the mattress would have lost half its value between 1985 and 2009

> Even if the savings are earning interest in a bank account, the real interest rate will lower

- Reference video: "Nominal Interest, Real Interest, and the Fisher Equation"

□ *Creditors*: Inflation causes the principal balance repaid to have less purchasing power than when it was loaned

> Example: 1st Bank loans $1,000 → Unanticipated Inflation → Five years pass, $1,000 repaid

● Unanticipated inflation may help or simply not affect some members of the economy:

□ *Flexible-Income Receivers*: People who receive income with "cost-of-living" adjustments

> Example: Social security payments; union contracts that adjust for inflation

□ *Debtors*: Inflation causes the principal balance repaid to have less purchasing power than when it was loaned

> Example: Bob borrows $1,000 → Unanticipated Inflation → Five years pass, $1,000 repaid