

Who Is Hurt and Who Is Helped by Unanticipated Inflation?

In Questions 1 through 15 decide which people or groups are hurt by unanticipated inflation and which benefit from unanticipated inflation. Circle the correct response, and explain why you answered as you did.

H means the person or group is *hurt* by unanticipated inflation.

G means the person or group *gains* from unanticipated inflation.

U means it is *uncertain* if the person or group is affected by unanticipated inflation or if the effects are unclear.

1. Banks extend many fixed-rate loans.

H G U

Explain:

2. A farmer buys machinery with a fixed-rate loan to be repaid over a 10-year period.

H G U

Explain:

3. Your family buys a new home with an adjustable-rate mortgage.

H G U

Explain:

4. Your savings from your summer job are in a savings account paying a fixed rate of interest.

H G U

Explain:

5. A widow lives entirely on income from fixed-rate corporate bonds.

H G U

Explain:

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6. A retired couple lives entirely on income from a pension the woman receives from her former employer.

H G U

Explain:

7. A retired man lives entirely on income from Social Security.

H G U

Explain:

8. A retired bank official lives entirely on income from stock dividends.

H G U

Explain:

9. The federal government has a \$5,000,000,000 debt.

H G U

Explain:

10. A firm signs a contract to provide maintenance services at a fixed rate for the next five years.

H G U

Explain:

11. A state government receives revenue mainly from a progressive income tax.

H G U

Explain:

12. A local government receives revenue mainly from fixed-rate license fees charged to businesses.

H G U

Explain:

13. Your friend rents an apartment with a three-year lease.

H G U

Explain:

14. A bank has loaned millions of dollars for home mortgages at a fixed rate of interest.

H G U

Explain:

15. Parents are putting savings for their child's college education in a bank savings account.

H G U

Explain:

16. What conclusions can you draw about who is helped and who is hurt by unanticipated inflation?

17. If you were certain that the inflation rate would be 10 percent a year for the next 10 years, how might your behavior change? Does your answer depend on who you are? Student? Worker?

