

Download Inflation, Overlooked Causes, And High Interest Rate

As interest rates are lowered, more people are able to borrow more money, causing the economy to grow and inflation to increase. Inflation and interest rates are often linked and frequently ...Inflation is the rise over time in the prices of goods and services [source: Investopedia.com]. It's usually measured as an annual percentage, just like interest rates. The real interest rate is nominal interest rates minus inflation. Thus if interest rates rose from 5% to 6% but inflation increased from 2% to 5.5%. This actually represents a cut in real interest rates from 3% (5-2) to 0.5% (6-5.5). Thus in this circumstance the rise in nominal interest rates actually represents expansionary monetary policy. If inflation is stable at a zero peg, it must be stable at a higher peg as well, which means raising interest rates must sooner or later raise inflation. The open question, which this paper goes after, is whether inflation can temporarily decline when interest rates rise., Inflation, Overlooked Causes, And High Interest Rate.

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