

What is Inflation?

UK Government Inflation Target

What causes inflation?

### Measuring Inflation

Most common measure for Inflation –

Calculated each month by –

A 'Basket' of goods represents ...

## Topic 8

### How inflation and interest rates impact on personal finance

Dangers of inflation

Controlling inflation

### Savings and Inflation

INFLATION MEANS:

THIS MEANS:



What is Inflation? The increase in prices over time, measured by how much typical 'basket' of goods costs

UK Government Inflation Target

2%

What causes inflation?

Measuring Inflation

Most common measure for Inflation –

**Consumer Price Index (CPI)**

Calculated each month by – Assessing the change in the cost of a typical 'basket' of goods from one year to the next

**A 'Basket' of goods represents** – What the average household spends over a particular period of time

**Topic 8**  
**How inflation and interest rates impact on personal finance**

Dangers of inflation

**Savings and Inflation**

**INFLATION MEANS:**

Your money is worth more now than it is in the future



**THIS MEANS:**

You need to invest money in schemes that give you a higher % return than the rate of inflation

Controlling inflation

What is Interest?

Fixed Rates

Interest that is calculated on the principle amount (or whatever is left of it

Variable Rates

A charge made/paid for the use of someone else's money.

AER

Simple

The amount of interest paid by a savings account before taking inflation into account.

APR

Compound

An interest rate that is set at a particular amount for a particular period of time and does not charge for that

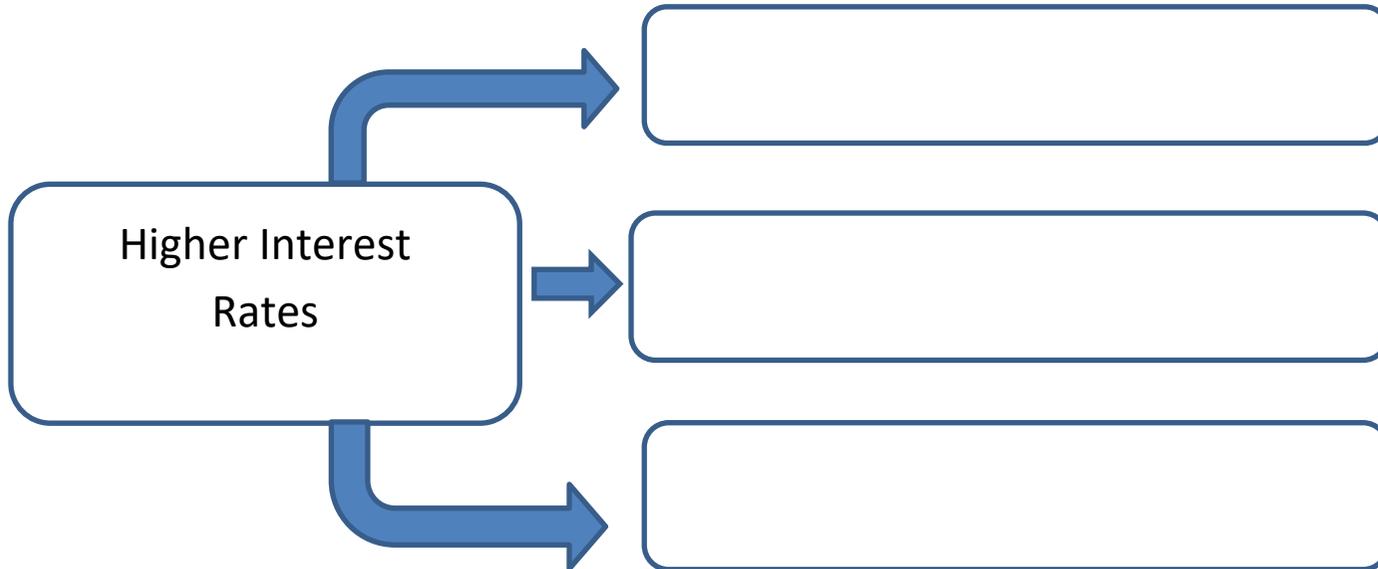
EAR

Nominal Interest

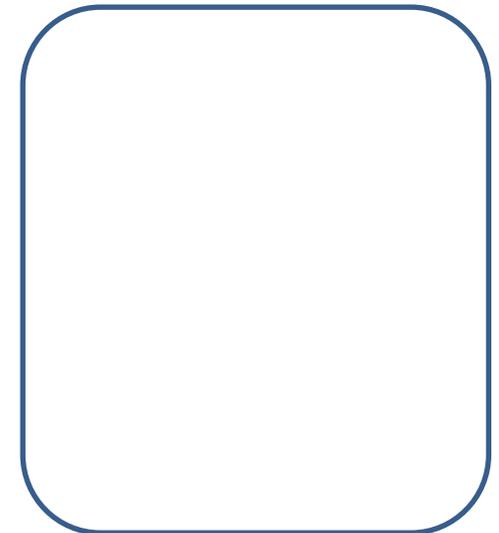
An interest rate that follows bank rate plus whatever charges the bank sets.

Interest

Interest that is calculated on the period amount plus the interest that has been charged or paid so far.



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What is Interest? A charge made/paid for the use of someone else's money

AER – Interest you earn on you **savings**

APR – Interest you pay on money that you have **borrowed**

EAR – Interest that you pay on your **overdraft**

Fixed Rates

Variable Rates

Simple

Compound

Nominal Interest

Interest

Interest that is calculated on the principle amount (or whatever is left of it)

A charge made/paid for the use of someone else's money.

The amount of interest paid by a savings account before taking inflation into account.

An interest rate that is set at a particular amount for a particular period of time and does not charge for that

An interest rate that follows bank rate plus whatever charges the bank sets.

Interest that is calculated on the period amount plus the interest that has been charged or paid so far.

Encourages saving as a better return

Borrowing is less attractive as it is more expensive

Mortgage payments may be higher for some

LESS SPENDING

LOWER DEMAND

LOWER PRICES

Higher Interest Rates

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