**Helped or Hurt?**

For each of the following scenarios, determine if the individual is helped or hurt by inflation. Explain each answer.

* 1. Jack retired five years ago and now lives on a fixed-income annuity and a small savings account that pays him 1% interest on the balance. The current inflation rate is 1.7%.
  2. Jill has worked at her current position without a raise for 4 years. Because inflation has risen 5% over the course of the 4 years, she has struggled to pay day-to-day living expenses and her house payment. She asked her employer for a raise and he gave her a 6% raise because she is such a good worker.
  3. Peter has been saving his money to buy his girlfriend an engagement ring. He decided to give the money to his mother to hold for him so he wouldn’t spend it rather than put it in a savings account at the bank. During the time he was saving, the price of the ring he picked out increased by 10%.
  4. Wendy manages a bank in the local area. The previous manager made several fixed-rate loans to customers at low interest rates to bring in new depositors. Inflation is now rising at 3% per year.
  5. Luke works for a building contractor and is a member of the local ironworkers union. The contractor is currently building 5 skyscrapers in the Chicago area. His union just negotiated a new 5-year contract that includes small annual raises and a cost of living adjustment (COLA).
  6. Leia just read that the national debt owed by the federal government is at an all-time high. (Explain impact on federal government.)
  7. Han works at the local tax agency. The county commissioners just voted to sell license tags at the same rate for the next 5 years. (Explain impact on county government.)
  8. Lando signed a 4-year fixed rate lease for the condo he is going to live in while he attends college.

# Helped or Hurt?

**Answer Key**

## For each of the following scenarios, determine if the individual is helped or hurt by inflation. Explain each answer.

1. Jack retired five years ago and now lives on a fixed-income annuity and a small savings account that pays him 1% interest on the balance. The current inflation rate is 1.7%.

*Hurt; The value of Jack’s savings will be less since inflation is greater than the interest he earns.*

1. Jill has worked at her current position without a raise for 4 years. Because inflation has risen 5% over the course of the 4 years, she has struggled to pay day-to-day living expenses and her house payment. She asked her employer for a raise and he gave her a 6% raise because she is such a good worker.

*Helped; Jill’s raise is more than inflation so she will gain in real dollars.*

1. Peter has been saving his money to buy his girlfriend an engagement ring. He decided to give the money to his mother to hold for him so he wouldn’t spend it rather than put it in a savings account at the bank. During the time he was saving, the price of the ring he picked out increased by 10%.

*Hurt; Inflation causes the price of the ring to go up so Pete’s decision to put the money into a savings account lost him some amount of interest that could have made the difference in buying the ring.*

1. Wendy manages a bank in the local area. The previous manager made several fixed-rate loans to customers at low interest rates to bring in new depositors. Inflation is now rising at 3% per year.

*Hurt; The bank will be paid back with money that has a lower real value than the money they loaned out. This will be true if the interest rate on the loans is lower than the inflation rate each year.*

1. Luke works for a building contractor and is a member of the local iron workers union. The contractor is currently building 5 skyscrapers in the Chicago area. His union just negotiated a new 5-year contract that includes small annual raises and a cost of living adjustment (COLA).

*Helped; The COLA will ensure Luke’s salary keeps up with inflation and he gets a small raise as well.*

## Leia just read that the national debt owed by the federal government is at an all-time high. (Explain impact on federal government.)

*Helped; The government is a borrower like people getting home mortgages and will repay the debt over time with money that has less real value if there is inflation.*

1. Han works at the local tax agency. The county commissioners just voted to sell license tags at the same rate for the next 5 years. (Explain impact on county government.)

*Hurt; The revenue collected from the tags will be worth less in future years.*

1. Lando signed a 4-year fixed rate lease for the condo he is going to live in while he attends college.

*Helped; Lando will pay his rent with dollars that have less real value in the future and will see no rent increases if there is inflation.*