

Handout

Money and its price (interest)

Note: Before working with this handout, please read Money and its value (inflation) and Measuring inflation.

Task 1: ECB

Please indicate whether the following statements about the ECB are true or false and correct any false statements.

| Statement | True | False | Correction |
|---|------|-------|------------|
| (1) The ECB aims for an inflation rate of 0% over the medium term to ensure that there is neither inflation nor deflation. | | | |
| (2) The interest rates banks charge for granting loans (lending rates) are usually lower than those they pay for customer deposits (deposit rates). | | | |
| (3) The ECB's key instrument in fighting inflation is the main refinancing operation. | | | |
| (4) If the ECB raises its key interest rates, demand for loans increases and prices fall. | | | |

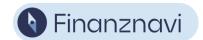
Task 2: Causes of inflation

Please indicate whether the following statements are examples of supply- or demandside inflation and identify the type of inflation as precisely as possible.

| Example | Supply- side inflation | Demand- side inflation | Type of inflation |
|---|------------------------------|------------------------------|-------------------|
| (1) Last year, the rise in energy prices forced many companies to raise the prices of their products. | | | |







| (2) | Retail sales rose rapidly in the short term following the lockdowns during the COVID-19 pandemic. | | |
|-----|---|--|--|
| (3) | The competition authority inspects food retailers as they plan to raise food prices above the inflation level because of their favorable market position. | | |
| (4) | There were problems with many supply chains during the pandemic. That's why many raw materials became more expensive. | | |

Task 3: The effects of inflation

Please indicate whether high inflation has positive or negative effects for the following economic agents and explain your answer.

1. Ms. Samuel took out a loan with fixed interest rates during a period when interest rates were low. After four years, she still owes the bank EUR 201,000. Meanwhile, inflation is high and interest rates are rising.

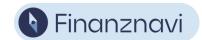
| Positive effects | Negative effects | Why? |
|------------------|------------------|------|
| | | |
| | | |

2. Sebastian's total savings of EUR 20,000 are in a savings book and in his current account.

| Positive effects | Negative effects | Why? |
|------------------|------------------|------|
| | | |
| | | |

3. Ms. Saalbacher owns several apartment buildings in Baden bei Wien, a town near Vienna. The rental contracts with her tenants state that rents will be adjusted to the consumer price index (CPI).

| Positive effects | Negative effects | Why? |
|------------------|------------------|------|
| | | |
| | | |



4. During the COVID-19 crisis, the Austrian government took on a lot of new debt to finance measures to overcome the crisis.

| Pos eff | sitive fects | Negative effects | Why? |
|------------|-----------------|------------------|------|
| | | | |
| | | | |
| | | | |

5. The Steiners took out a loan with variable interest rates from their bank several years ago. They still have five years of repayments left.

| Positive effects | Negative effects | Why? |
|------------------|------------------|------|
| | | |
| | | |

