ECON FOCUS
READING Q&A

JARGON ALERT: Real Interest Rate

After reading the article (https://www.richmondfed.org/-/media/richmondfedorg/publications/research/econ_focus/2015/q2/pdf/jargon_alert.pdf) answer the following questions:

1. What is the difference between real and nominal rates?

2. Why did real interest rates decrease as nominal interest rates rose during the 1970s? Explain.

3. In recent years, both real and nominal interest rates have fallen around the globe. What are some of the factors that have caused the decrease?

4. Why are real interest rates the key interest rates that influence the economy? What impacts real interest rates in the long run?

5. What are the possible long-run implications of persistently low real interest rates?

GLOSSARY

Inflation: A general, sustained upward movement of prices for goods and services in an economy.

Interest: The price of using someone else's money. When people place their money in a bank, the bank uses the money to make loans to others. In return, the bank pays interest to the account holder. Those who borrow from banks or other organizations pay interest for the use of the money borrowed.

Interest rate: The percentage of the amount of a loan that is charged for a loan. Also, the percentage paid on a savings account.

Interest rate effect: The effect on consumer spending and investment spending caused by a change in the aggregate price level on the purchasing power of consumers' and firms' money holdings.

Nominal: Monetary values, wages, or prices, not adjusted for inflation and measured in current prices.

Real: Monetary values, wages, or prices, adjusted for inflation and measured in constant prices—that is, in prices of a given or base period.