Why saving in a bank account means losing money

Lesson: zerotoinvest.com/en/lesson/inflation/

Name _____ Date _____

EXERCISE 1

Inflation is 2.5 percent a year. After roughly how many years has purchasing power halved?

Your answer

EXERCISE 2

$10,000 sits in an account for 15 years without interest, inflation is 3 percent a year. What is it worth in today's purchasing power then?

Your answer

EXERCISE 3

Your savings account pays 2 percent, inflation is 3 percent. What exactly is the real interest rate?

Your answer

EXERCISE 4

A bread roll costs $0.40 today. What will it cost in 20 years at 2.5 percent inflation a year?

Your answer

Tip: the calculators on zerotoinvest.com help you check your answers.

Approved for teaching: copying and distribution to learners in lessons and educational events is expressly permitted. No commercial use. © zerotoinvest.com

Solutions: Why saving in a bank account means losing money

Remove this page before handing out the sheet.

Exercise 1. Rule of thumb: 70 ÷ 2.5 = 28 years.

Exercise 2. $\$10{,}000 \div 1.03^{15} = \$6{,}419$.

Exercise 3. 1.02 ÷ 1.03 − 1 = minus 0.97 percent. The shortcut interest minus inflation gives minus 1 percent.

Exercise 4. $\$0.40 \times 1.025^{20} = \$0.66$.

Approved for teaching: copying and distribution to learners in lessons and educational events is expressly permitted. No commercial use. © zerotoinvest.com