

INFLATION THE SILENT THIEF

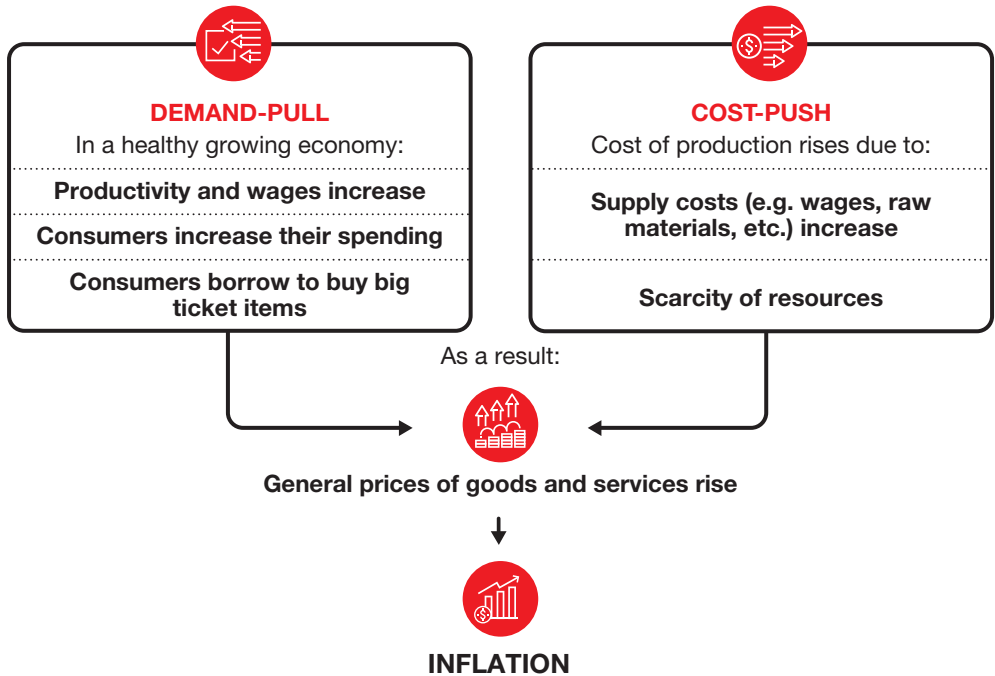


PUBLIC MUTUAL
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What is Inflation?

Inflation is a general rise in prices of goods and services. It happens when there is too much cash chasing after too few goods or when the cost of production rises.

Inflation Arises Due to Two Factors:



Example: Assuming inflation rate is 3%

If a 🧁 costs RM2.50 today

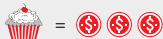
5 years later:
It will cost **RM2.90**



10 years later:
It will cost **RM3.36**



20 years later:
It will cost **RM4.52**



The Rule of 72:

Calculate the Impact of Inflation on your money

$$72 \div \text{inflation rate} = \text{No. of years}$$

Example: Assuming inflation rate is 3%
 $72 \div 3 = 24$

You can expect your money to lose half its value in **24 years**.

Some Effects of Inflation on Consumers

1. Consumers suffer from **lower purchasing power** when prices increase.

1970s – RM2.00 can buy 4 cups



1990s – RM2.00 can buy 2 cups



Today – RM2.00 can buy 1 cup



2. Consumers may face **difficulty in maintaining their living standards** as more money is needed to buy the same quantity of goods and services than before.



3. **Higher borrowing cost** for borrowers as banks may increase interest rates if the central bank raises the rates to control inflation.



Prices increase (for instance, properties) in an overheating economy



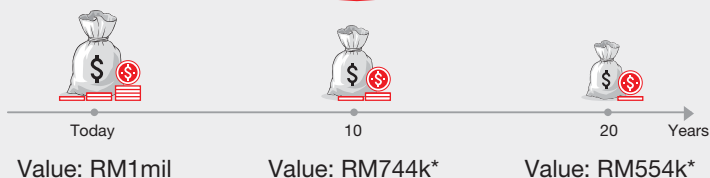
Central bank may raise interest rates



Dampens demand-pull inflation

4. **Erodes your retirement fund** if it is not invested wisely because inflation reduces the real value of money over time.

Your retirement fund loses its value over time due to inflation.



* Assuming inflation rate is 3%

3 Ways to Beat Inflation



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