a. The nominal interest rate is 8 percent and the inflation rate is 4 percent.
b. The nominal interest rate is 5 percent and the inflation rate is 1 percent.
c. The nominal interest rate is 4 percent and the inflation rate is 3 percent.

8. What are your shoeleather costs of going to the bank? How might you measure these costs in dollars? How do you think the shoeleather costs of your college president differ from your own?
9. Recall that money serves three functions in the economy. What are those functions? How does inflation affect the ability of money to serve each of these functions?
10. Suppose that people expect inflation to equal 3 percent, but in fact, prices rise by 5 percent. Describe how this unexpectedly high inflation rate would help or hurt the following:
    a. the government
    b. a homeowner with a fixed-rate mortgage
    c. a union worker in the second year of a labor contract
    d. a college that has invested some of its endowment in government bonds
11. Explain one harm associated with unexpected inflation that is *not* associated with expected inflation. Then explain one harm associated with both expected and unexpected inflation.
12. Explain whether the following statements are true, false, or uncertain.
    a. "Inflation hurts borrowers and helps lenders, because borrowers must pay a higher rate of interest."
    b. "If prices change in a way that leaves the overall price level unchanged, then no one is made better or worse off."
    c. "Inflation does not reduce the purchasing power of most workers."