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How interest rates affect inflation

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When inflationary pressures become entrenched in the economy, one of the things the Fed can do is raise interest rates to slow down economic activity. This means that the cost of borrowing is higher for consumers if they're trying to buy cars or homes and the cost of borrowing is higher for businesses if they're trying to expand their business. And raising the cost of borrowing all this debt can, on the margin, slow down economic activity enough, and that's one of the main goals the Fed has of raising interest rates.

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