

Unit 7 Homework: Loanable Funds Market

Directions: Notice that all problems ask you for a descriptive answer in addition to performing a calculation or manipulating a graphical model. For full credit, make sure that you do both. You may print these sheets and put your answers in the space provided or you may use your own paper to write your answers.

1. Suppose businesses expect demand for their products and services to increase in the near future. Describe and illustrate the impact on equilibrium investment and interest rate.
2. Suppose an improvement in technology makes capital more productive. Describe and illustrate the impact on equilibrium investment and interest rate.
3. Suppose a government decreases spending while keeping tax revenues the same. Describe and illustrate the impact on equilibrium investment and interest rate.

4. Suppose a government increases its spending on infrastructure such as roads, electrical lines, and communications infrastructure, all of which make business more productive. Suppose the governments finance this with cuts to less essential expenditures, so that total government expenditures and taxes stay the same. Describe and illustrate the impact on equilibrium investment and interest rate.

5. Suppose a government increases its spending on infrastructure such as roads, electrical lines, and communications infrastructure, all of which make business more productive. Suppose the government does this while keeping tax revenues the same. Describe and illustrate the impact on equilibrium investment and interest rate. Describe how and why your answer to this question is different than the previous question.

6. Suppose a country reduces international trade barriers which results in more foreign direct investment. Describe and illustrate the impact on equilibrium investment and interest rate.

7. Suppose consumer confidence increases, leading to both increases in expenditures on goods and services and a decrease in precautionary savings. Describe and illustrate the impact on equilibrium investment and interest rate.
8. Suppose changes in policies in foreign countries lead to an increase in demand for U.S. exports. Describe and illustrate the impact on equilibrium investment and interest rate in the United States.