

ECO 120: Macroeconomics

Name: \_\_\_\_\_

In-class Exercise

Loanable Funds Market

Section (Circle One): 7:45-9:10AM 9:25-10:50AM

**Group Work Directions:** Work in groups of up to four people and answer the following questions. *When using graphs, you must clearly and correctly label all axis and curves to receive non-zero credit for an answer.* All papers will be collected, but only one member's paper will be randomly selected and graded and all members of the group will receive the same grade.

By signing below, you agree that the following work represents the efforts of everyone in the group, and you are willing to accept as your own grade for the group project the grade earned from this representation of your group's work. Every member must agree to these terms to earn a non-zero grade for this assignment.

|                                   |                     |               |
|-----------------------------------|---------------------|---------------|
| _____<br>Signature Group Member 1 | _____<br>Print Name | _____<br>Date |
| _____<br>Signature Group Member 2 | _____<br>Print Name | _____<br>Date |
| _____<br>Signature Group Member 3 | _____<br>Print Name | _____<br>Date |
| _____<br>Signature Group Member 4 | _____<br>Print Name | _____<br>Date |

**Directions:** For each of the following, describe and illustrate the effect on the equilibrium level of investment, saving, and interest rate. Further describe the effect this change in equilibrium should have on long-run production possibilities.

1. Suppose businesses pessimistic about their future sales for their products and services.
2. Suppose Google announces an improvement in communication technologies that will make businesses more productive.
3. Suppose the most recent recession causes a permanent fall in consumer confidence, leading consumers to permanently increase the fraction of income they save.



7. Suppose, while leaving the level of the government budget deficit unchanged, federal and state governments increase the capital gains tax rate, which is the tax rate on interest income from saving.

8. To reduce federal government deficits, suppose the government allows some automatic spending cuts and tax increases to take place.

9. Suppose, while leaving the level of the government budget deficit unchanged, there is an increase in labor income taxes.