

ECO 120: Macroeconomics

Name: _____

In-class Exercise

Loanable Funds Market

Section (Circle One): 2:15pm-3:40 3:55pm-5:20

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.

_____ Signature Group Member 1	_____ Print Name	_____ Date
_____ Signature Group Member 2	_____ Print Name	_____ Date
_____ Signature Group Member 3	_____ Print Name	_____ Date
_____ Signature Group Member 4	_____ Print Name	_____ 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.

4. Suppose businesses expect employment to grow in future.

5. Suppose there is an increase in international trade restrictions, including higher tariffs and more quotas put in place that legally restrict the quantity of imports.

6. Suppose political turmoil, political corruption, and fear of war grow worse in a small developing country.

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.