

ECO 120: Global Macroeconomics
Unit 7 Homework: Loanable Funds Market

Name: _____

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.

When you have finished, scan or take pictures of your work, combine all images to a single PDF file, assure that all pictures are oriented right-side up, and upload your work as a single PDF file to the Canvas Assignment area.

For each of the following problems, read the scenario and determine the following (in order):

- Does the scenario cause a shift in the investment demand and/or savings supply curve? If so, which curve, which direction?
- Draw the savings supply and investment demand curves with appropriate shifts.
- Label the original and new equilibrium interest rate and quantity of investment.
- What is the impact of the scenario on the equilibrium interest rate? What is the impact on the equilibrium quantity of investment?

1. Suppose businesses expect demand for their products and services to increase in the near future.

2. Suppose a government increases its spending on military spending while keeping tax revenues the same.

3. 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 other expenditures, so that total government expenditures and taxes stay the same.

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 government does this while keeping tax revenues the same.

5. Suppose while maintaining a balanced budget, the government allocates more spending and support for routine health care services which have been shown to improve both health and productivity of workers.

6. Suppose a country imposes legal barriers to foreign direct investment, which makes it less profitable for foreign companies to build manufacturing and service facilities in the country.

7. Suppose consumers' incomes decrease, causing them to decrease both spending and saving.

