



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's 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.

