**Questions for the loanable funds interactive activity:**

(a. is the correct answer in each case)

1. A rise in the real rate of interest could be caused by

a. an increase in the demand for loanable funds or a decrease in the supply of loanable funds.

b. a decrease in the demand for loanable funds or a decrease in the supply of loanable funds.

c. an increase in the demand for loanable funds or an increase in the supply of loanable funds.

d. a decrease in the demand for loanable funds or an increase in the supply of loanable funds.

e. a decrease in investment demand.

2. If the tax rate on income earned from savings is increased then,

a. the supply of loanable funds shifts left, the real interest rate rises, and spending on new plant and equipment falls.

b. the supply of loanable funds shifts right, the real interest rate falls, and spending on new plant and equipment rises.

c. the supply of loanable funds shifts left, the real interest rate rises, and spending on new plant and equipment rises.

d. the supply of loanable funds shifts right, the real interest rate rises, and spending on new plant and equipment falls.

e. the demand for loanable funds shifts left, the real interest rate rises, and spending on new plant and equipment falls.

3. A decrease in business spending on plant and equipment could be caused by

a. an increase in borrowing by the federal government.

b. a decrease in the tax rate on interest earned from savings.

c. an increase in savings.

d. a decrease in the demand for loanable funds.

e. an increase in the supply of loanable funds.

4. A decrease in the supply of loanable funds will

a. raise the real interest rate and decrease investment spending.

b. raise the real interest rate and increase investment spending.

c. lower the real interest rate and increase investment spending.

d. lower the real interest rate and decrease investment spending.

e. have no effect on the real interest rate and therefore no effect on investment spending.