PART 2. Welcome to the wonderful world of Flow of Funds Accounting.

The exercise is to do some work using annual data from the Flow of Funds (Z.1) data, available from the Federal Reserve at https://www.federalreserve.gov/DataDownload/Choose.aspx?rel=Z1 And https://www.federalreserve.gov/Releases/Z1/preview/data.htm. A guide to the tables is at http://www.federalreserve.gov/Releases/Z1/preview/Coded/index.htm.Note that F. in a table identifier means “Flow” (new activity in that year). Choose the table, frequency, time window, and format.

Using annual data from 1950 to the present, go to the Flow table “F.### Nonfinancial Corporate Business.” We want you to do a few simple exercises with these figures. Note that the figures you will be working with are very similar to the ones presented in class on “Long-Term U.S. Corporate Investment Patterns.”

A) Pull the data from these lines for the years 1950-present:

– “Total Internal Funds + IVA”

– “Fixed Investment”

– “Net Increase in Liabilities”

B) Generate two time series and plot these relationships over the full period 1950-present:

– Internal Funds/Fixed Investment

– Net Increase in Liabilities/Fixed Investment

Considering these two data series, what do they suggest about the importance of financial markets as a source of funding for new plant and equipment in the U.S. economy? Can these data series help shed light on the relative importance of factors such as cash flow or the Q ratio in determining investment activity in the U.S?