Financial intermediaries:

→ Savers indirectly provide their funds to borrowers.

→ Banks, mutual funds.

institutions that ~~chas~~ sell funds to the public & use the proceeds to buy portfolios of stocks and bonds.

Savings

- Private
  - $Y - C - T$
  - income of households which is not consumed / paid as tax to Govt.
- Public
  - $T - G$
  - income of Govt. = tax ~~exce~~ which is not used in govt. spending
- National
  - = private + public savings
  - $= (Y - C - T) + (T - G)$
  - $= Y - C - G$ Total national income
  - = ~~Part of~~ ~~Govt's~~ income not used in consumption / govt. spending
  - Closed economy: $NX = 0$

$Y = C + I + G + NX$

$Y = C + I + G$

$I = Y - C - G$ = investment

$\boxed{\text{Saving (national) = investment}}$

Budget & Public Savings:

- Budget Surplus
  = Excess of tax over Govt. spending
  $= T - G =$ ~~pb~~ public saving
- Budget deficit = Shortfall of tax over Govt spending
  $= G - T$
  = − (public saving)

→ What do households do with private savings?

→ Savings account
→ certificate of deposit
→ Buy mutual funds
→ Buy bonds/ equities

↳ Investment:

→ Purchase of new capital.
→ Eg: invest to buy a new house, computer, car etc.,
→ not the purchase of stocks & bonds.

↳ Govt. sells bonds to handle budget deficits.

↳ debt - GDP ratio

$= \frac{\text{Govt's debt}}{\text{GDP}}$ (measure of Govt's indebtness)

↳ ↑ during war-times & ↓ during peace times.

↳ has ↑ed during world war 1, 2, civil war etc., in the US.