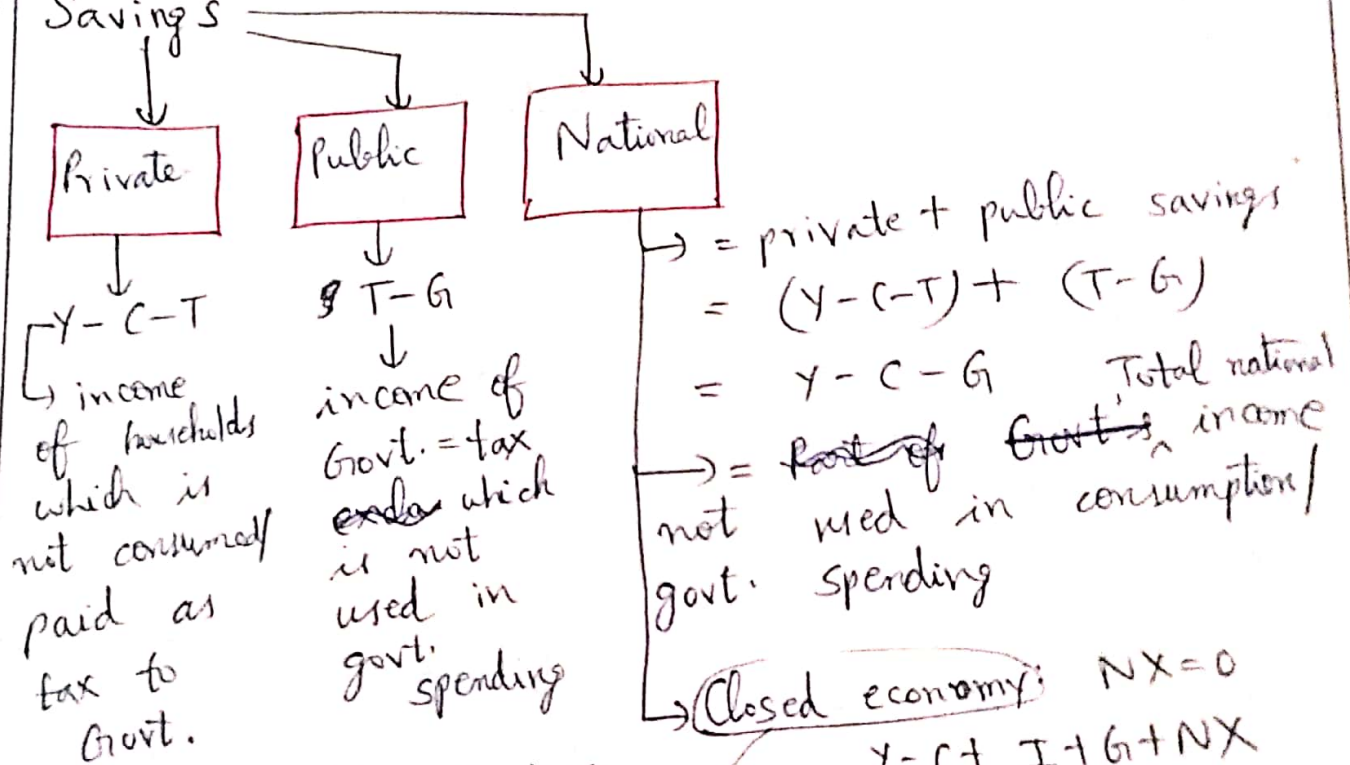


Financial intermediaries:

- Savers indirectly provide their funds to borrowers.
- Banks, mutual funds.
- institutions that ~~also~~ sell funds to the public & use the proceeds to buy portfolios of stocks and bonds.

Savings



Budget & Public Savings:

- Budget Surplus
- = Excess of tax over Govt. spending
- = $T - G$ = public saving

- Budget deficit = shortfall of tax over Govt. spending
- = $G - T$
- = - (public saving)

→ Closed economy: $NX = 0$

$$Y = C + I + G + NX$$

$$Y = C + I + G$$

$$I = Y - C - G = \text{investment}$$

Saving = investment (national)

→ 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 indebtedness)

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

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