Name: ___________________________ Date: _____________

1. What do we call income that is *not* spent on consumption goods?
   A) investment
   B) profit
   C) asset retention
   D) saving

2. Investment is
   A) the purchase of new capital goods.
   B) the purchase of new consumption goods.
   C) the purchase of gold and silver during inflationary times.
   D) the purchase of shares of stock on the New York Stock Exchange.

3. According to the consumption-smoothing theory, a person typically saves the most
   A) during working years.
   B) during retirement years.
   C) as an infant.
   D) as a full-time student.

4. The supply of savings function shows the relationship between saving and
   A) consumption.
   B) income.
   C) age.
   D) the interest rate.

5. The supply of loanable funds comes from __________ and the demand for loanable funds comes from __________.
   A) saving; investment
   B) investment; saving
   C) saving; consumption
   D) investment; consumption

6. An investment tax credit will cause the interest rate to
   A) increase and borrowing to increase.
   B) increase and borrowing to decrease.
   C) decrease and borrowing to decrease.
   D) decrease and borrowing to increase.

7. An increase in the supply of savings will cause the interest rate
   A) to remain unchanged.
   B) to be lower.
   C) to be higher.
   D) to increase at the same rate as the supply of savings.

8. What effect will an investment tax credit have on interest rates and the quantity of savings?
   A) None, investment tax credits only affect the amount of taxes paid by firms.
   B) Both interest rates and the quantity of savings will increase.
   C) Interest rates will decrease and the quantity of savings will increase.
   D) Interest rates will not change, but the quantity of savings decreases.

9. Stock shares represent __________ and bonds represent __________.
   A) corporate debt; corporate ownership
   B) corporate debt; corporate debt
   C) corporate ownership; corporate ownership
   D) corporate ownership; corporate debt

10. An increase in government borrowing will cause the
   A) demand for borrowing to shift outward.
   B) demand for borrowing to shift inward.
   C) supply of savings to shift outward.
   D) supply of savings to shift inward.

Answer Key

1. D
2. A
3. A
4. D
5. A
6. A
7. B
8. B
9. D
10. A