



# 1. Interest Rates

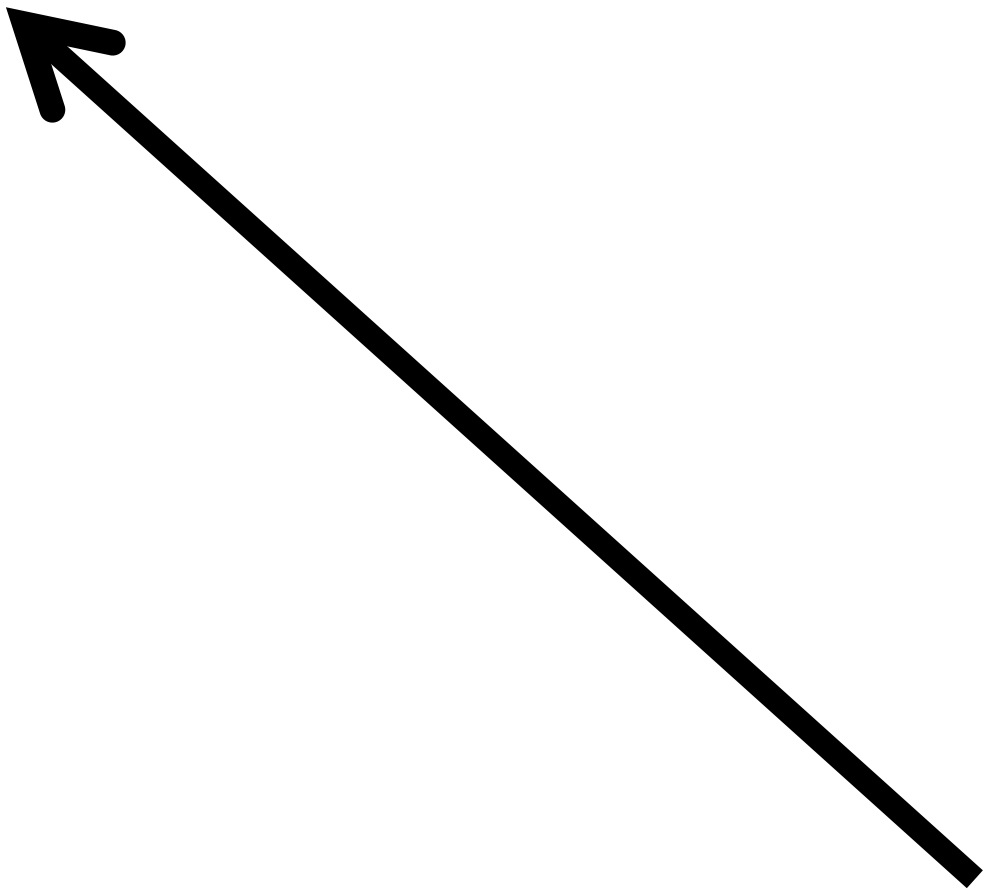
◆ Businesses **borrow** to  
finance investment

◆ Consumers **borrow** to  
purchase new homes

# Interest rate







Investment



What determines Investment spending?

Inverse relationship  
between Investment  
and interest rates

7% — — — — —

|

|

|

|

|

500b

4%



1,000b

**A**



























6























W



















**m m**



























6



















**S**

h





6











W















U

mm









U



6a







**Y**









6





nm







6



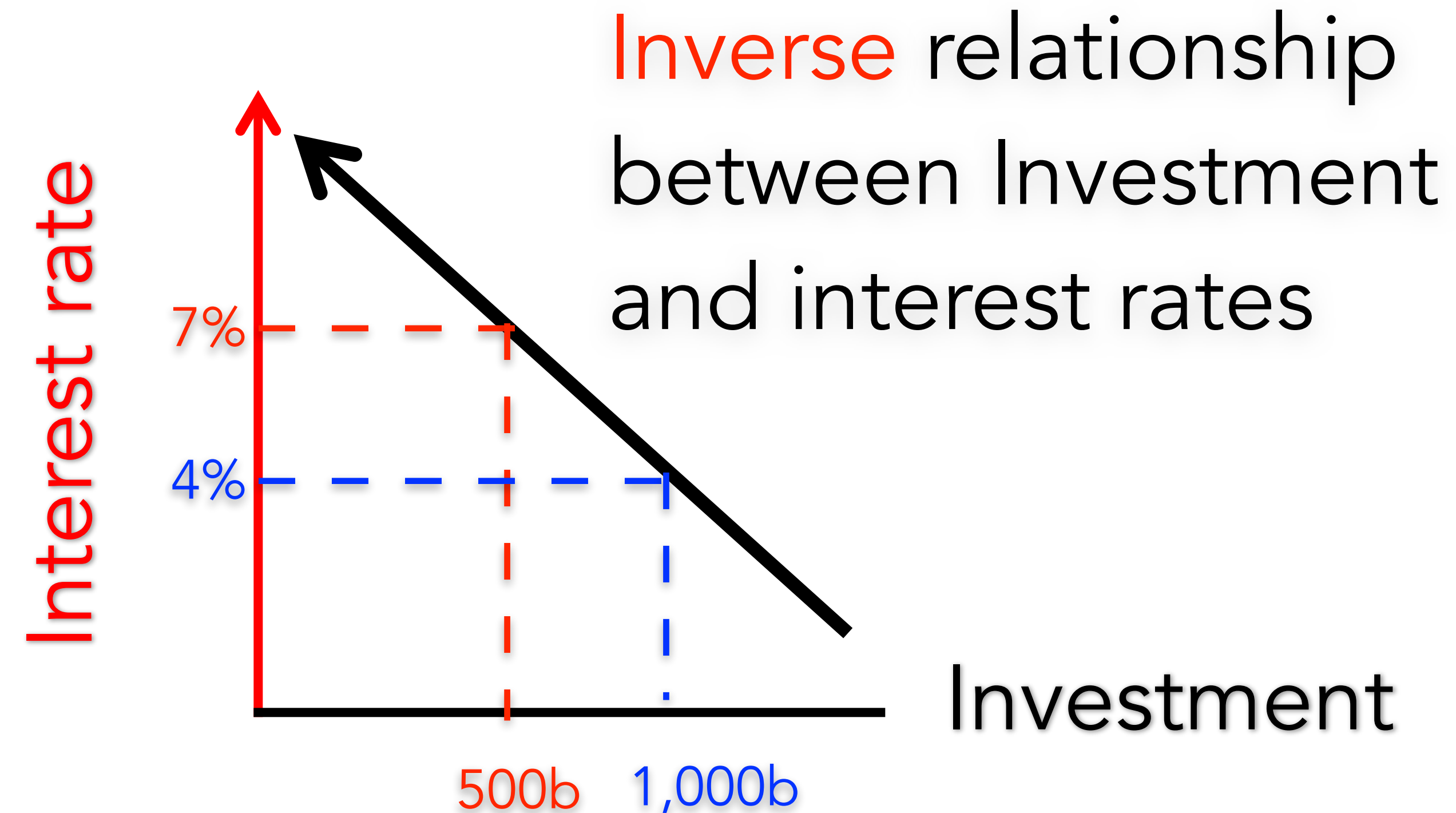


As interest rates **rise**, **fewer** investment projects are profitable and  
**fewer** consumers qualify for a home loan

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## 1. Interest Rates

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