

University of Lethbridge — Department of Economics
ECON 1012 — Introduction to Macroeconomics
Instructor: Michael G. Lanyi

CH 23 — Finance Saving Investment

1) Capital is

- A) the tools, instruments, machines, buildings, and other items that have been produced in the past and that are used today to produce goods and services.
- B) financial wealth.
- C) net investment.
- D) gross investment.
- E) the sum of investment and government expenditure on goods.

Topic: Financial Institutions and Financial Markets

2) Gross investment

- A) is the change in the value of capital
- B) includes only replacement investment.
- C) is the total amount spent on new capital.
- D) equals saving minus wealth.
- E) equals wealth minus saving.

Topic: Financial Institutions and Financial Markets

3) The total amount spent on new capital is

- A) depreciation.
- B) net investment.
- C) saving.
- D) gross investment.
- E) wealth.

Topic: Financial Institutions and Financial Markets

4) In January 2008, Tim's Gyms, Inc. owned machines valued at \$1 million. During the year, the market value of the machines fell by 30 percent. During 2008, Tim spent \$200,000 on new machines. During 2008, Tim's gross investment was

- A) \$1 million.
- B) \$300,000.
- C) \$100,000.
- D) \$900,000.
- E) \$200,000

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5) Net investment equals

- A) gross investment minus depreciation.
- B) the total quantity of plant, equipment, and buildings.
- C) capital minus depreciation.
- D) wealth minus saving.
- E) gross investment/depreciation.

Topic: Financial Institutions and Financial Markets

- 6) The increase in the value of capital is
- A) net investment.
 - B) wealth.
 - C) depreciation.
 - D) private sector spending.
 - E) gross investment.

Topic: Financial Institutions and Financial Markets

- 7) Capital stock increases when
- A) gross investment exceeds net investment.
 - B) net investment exceeds gross investment.
 - C) gross investment is negative.
 - D) net investment is zero.
 - E) net investment is positive.

Topic: Financial Institutions and Financial Markets

- 8) If the economy's capital increases over time,
- A) gross investment equals depreciation.
 - B) depreciation is less than zero.
 - C) net investment is positive.
 - D) depreciation exceeds gross investment.
 - E) gross investment is zero.

Topic: Financial Institutions and Financial Markets

- 9) If the economy's capital decreases over time,
- A) depreciation is less than zero.
 - B) gross investment is zero.
 - C) gross investment equals net investment.
 - D) net investment is positive.
 - E) depreciation exceeds gross investment.

Topic: Financial Institutions and Financial Markets

- 10) In January 2008, Tim's Gyms, Inc. owned machines valued at \$1 million. During the year, the market value of the machines fell by 10 percent. During 2008, Tim spent \$200,000 on new machines. During 2008, Tim's net investment was
- A) \$1 million.
 - B) \$200,000.
 - C) \$300,000.
 - D) \$1.1 million.
 - E) \$100,000.

Topic: Financial Institutions and Financial Markets

- 11) The Acme Stereo Company had a capital stock of \$24 million at the beginning of the year. At the end of the year, the firm had a capital stock of \$20 million. Thus its
- A) net investment was -\$4 million for the year.
 - B) net investment was some amount but we need more information to determine the amount.
 - C) gross investment was zero.
 - D) depreciation was \$4 million.
 - E) net investment was \$4 million for the year.

Topic: Financial Institutions and Financial Markets

- 12) At the beginning of the year, Tom's Tubes had a capital stock of 5 tube-inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom's net investment for the year totaled
- A) 2 machines.
 - B) 6 machines.
 - C) 3 machines.
 - D) 5 machines
 - E) 1 machine.

Topic: Financial Institutions and Financial Markets

- 13) At the beginning of the year, Tom's Tubes had a capital stock of 5 tube-inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom's gross investment for the year totaled
- A) 1 machine.
 - B) 3 machines.
 - C) 8 machines.
 - D) 2 machines.
 - E) 6 machines.

Topic: Financial Institutions and Financial Markets

- 14) At the beginning of the year, Tom's Tubes had capital of 5 tube-inflating machines. During the year, Tom scrapped 2 old machines and purchased 3 new machines. Tom's capital at the end of year was
- A) 3 machines.
 - B) 6 machines.
 - C) 2 machines.
 - D) 8 machines.
 - E) 1 machine.

Topic: Financial Institutions and Financial Markets

- 15) Which of the following is *false* about saving?
- A) Saving is the source of funds used to finance investment.
 - B) Saving adds to wealth.
 - C) Saving supplies funds in loan markets, bond markets, and stock markets.
 - D) Income left after paying taxes can either be consumed or saved.
 - E) Saving equals wealth minus consumption expenditure.

Topic: Financial Institutions and Financial Markets

- 16) At the beginning of the year, your wealth is \$10,000. During the year, you have an income of \$90,000 and you spend \$80,000 on consumption goods and services. You pay no taxes. Your wealth at the end of the year is
- A) \$90,000.
 - B) \$10,000.
 - C) \$100,000.
 - D) \$0.
 - E) \$20,000.

Topic: Financial Institutions and Financial Markets

- 17) At the beginning of the year, your wealth is \$10,000. During the year, you have an income of \$80,000 and you spend \$90,000 on consumption goods and services. You pay no taxes. Your wealth at the end of the year is
- A) \$10,000.
 - B) \$20,000.
 - C) \$0.
 - D) \$90,000.
 - E) \$100,000.

Topic: Financial Institutions and Financial Markets

- 18) In 2008, Tim's Gyms needs to finance the building of a new gym. Suppose Tim secures this financing from a bank, and the bank receives ownership if Tim fails to make payments. This type of funding is
- A) a stock issued in the bond market.
 - B) a stock issued in the loan market.
 - C) a mortgage obtained in the loan market.
 - D) a mortgage obtained in the stock market.
 - E) a bond issued in the bond market.

Topic: Financial Institutions and Financial Markets

- 19) The funds used to buy physical capital are
- A) investment.
 - B) saving.
 - C) financial capital.
 - D) wealth.
 - E) net investment.

Topic: Financial Institutions and Financial Markets

- 20) This year Pizza Hut spent \$1.3 billion on new capital in its stores. Depreciation during the year was \$300 million. Pizza Hut's gross investment was _____ and its net investment was _____.
- A) \$1.0 billion; \$1.3 billion
 - B) \$1.3 billion; \$1.6 billion
 - C) \$1.3 billion; \$1.0 billion
 - D) \$1.0 billion; \$0.7 billion
 - E) \$1.3 billion; \$0.3 billion

Topic: Financial Institutions and Financial Markets

- 21) If a bank's net worth is negative, then the bank is
- A) insolvent.
 - B) liquid.
 - C) solvent.
 - D) liquid.
 - E) none of the above.

Topic: Financial Institutions and Financial Markets

- 22) In which market would you find mortgage-backed securities?
- A) loan market
 - B) stock market
 - C) capital market
 - D) housing market
 - E) bond market

Topic: Financial Institutions and Financial Markets

- 23) Elena owns a Canada Savings Bond with a price of \$5,000, which pays \$500 per year. The price of the bond rises in the bond market to \$7,500. What is the new interest rate on the bond?
- A) 5%
 - B) 500%
 - C) 20%
 - D) 6.67%
 - E) 10%

Topic: Financial Institutions and Financial Markets

24) Investment is financed by which of the following?

- I. Government spending.
 - II. Household saving.
 - III. Borrowing from the rest of the world.
- A) I, II, and III.
 - B) I and III only.
 - C) II and III only.
 - D) I and II only.
 - E) None of the above.

Topic: The Market for Loanable Funds

25) National saving equals

- A) private saving + government saving.
- B) investment.
- C) private saving – net taxes.
- D) government saving.
- E) private saving + private wealth.

Topic: The Market for Loanable Funds

26) If national saving equals \$100,000, net taxes equal \$100,000 and government expenditure equals \$25,000, what is private saving?

- A) -\$25,000
- B) \$175,000
- C) \$225,000
- D) \$25,000
- E) zero

Topic: The Market for Loanable Funds

27) Suppose Canada spends more on foreign goods and services than foreigners spend on our goods and services. Then

- A) the rest of the world may or may not finance Canada's trade deficit.
- B) Canada must borrow an amount equal to imports minus exports.
- C) Canada must borrow an amount equal to national saving.
- D) Canada must borrow an amount equal to consumption expenditure plus investment.
- E) none of the above.

Topic: The Market for Loanable Funds

28) In 2008, Country A has net taxes of \$30 million and government expenditures of \$35 million. Private saving in Country A is \$5 million and consumption expenditure is \$80 million. The government of Country A is running a budget _____ and national saving is _____.

- A) surplus; \$25 million
- B) deficit; zero
- C) deficit; -\$5 million
- D) deficit; \$5 million
- E) surplus; \$5 million

Topic: The Market for Loanable Funds

Refer to the table below to answer the following questions.

Table 23.2.1

Item	Millions of dollars
Consumption expenditure	80
Government expenditure on goods and services	30
Net taxes	35
Investment	20
Imports	10
Exports	20

29) Refer to Table 23.2.1. Private saving is

- A) -\$15 million.
- B) \$20 million.
- C) \$80 million.
- D) \$40 million.
- E) \$25 million.

Topic: The Market for Loanable Funds

30) Refer to Table 23.2.1. Government saving is

- A) -\$5 million.
- B) \$15 million.
- C) \$5 million.
- D) \$20 million.
- E) \$45 million.

Topic: The Market for Loanable Funds

31) Approximately, the real interest rate _____ the inflation rate _____ the nominal interest rate.

- A) minus; equals
- B) plus; equals
- C) times; divided by 100 equals
- D) equals; plus
- E) equals; minus

Topic: The Market for Loanable Funds

32) The real interest rate

- A) increases when the inflation rate increases.
- B) is approximately equal to the nominal interest rate plus the inflation rate.
- C) can never be negative.
- D) is approximately equal to the nominal interest rate minus the inflation rate.
- E) none of the above.

Topic: The Market for Loanable Funds

33) Suppose that you took out a \$1,000 loan in January and had to pay \$75 in annual interest. During the year, inflation was 6 percent. Which of the following statements is correct?

- A) The nominal interest rate is 7.5 percent and the real interest rate is 13.5 percent.
- B) The nominal interest rate is 7.5 percent and the real interest rate is 1.5 percent.
- C) The real interest rate is 6 percent and the nominal interest rate is -1.5 percent.
- D) The real interest rate is 7.5 percent and the nominal interest rate is 1.5 percent.
- E) The real interest rate is 6 percent and the nominal interest rate is 7.5 percent.

Topic: The Market for Loanable Funds

- 34) If the nominal interest rate is 11 percent and the inflation rate is 9 percent, then the real interest rate is approximately
- A) 2 percent.
 - B) 4 percent.
 - C) 18 percent.
 - D) 20 percent.
 - E) -2 percent.

Topic: The Market for Loanable Funds

- 35) A firm's decision to invest in a project is based on the
- A) nominal interest rate and expected total revenue.
 - B) nominal interest rate and the expected profit.
 - C) real interest rate and expected total revenue.
 - D) real interest rate and the expected profit.
 - E) expected future income, wealth, and default risk.

Topic: The Market for Loanable Funds

- 36) Suppose a firm has an investment project which will cost \$200,000 and result in \$30,000 profit. The firm will not undertake the project if the interest rate is _____.
- A) greater than 5 percent
 - B) greater than 15 percent
 - C) greater than 7.5 percent
 - D) greater than 10 percent
 - E) positive

Topic: The Market for Loanable Funds

- 37) As the _____ interest rate increases, the quantity of loanable funds demanded _____.
- A) nominal; increases
 - B) real; increases
 - C) nominal; decreases
 - D) real; decreases
 - E) None of the above. There is no relationship between interest rates and loanable funds.

Topic: The Market for Loanable Funds

- 38) The demand for loanable funds is the relationship between the quantity of loanable funds demanded and the _____ other things remaining the same.
- A) quantity of loanable funds supplied
 - B) real interest rate
 - C) inflation rate
 - D) nominal interest rate
 - E) price level

Topic: The Market for Loanable Funds

- 39) The demand for loanable funds curve
- A) is horizontal.
 - B) has a negative slope.
 - C) slopes downward at high real interest rates and slopes upward at low real interest rates.
 - D) is vertical.
 - E) has a positive slope.

Topic: The Market for Loanable Funds

- 40) As the _____ interest rate rises _____.
- A) nominal; the demand for loanable funds curve shifts rightward
 - B) real; the demand for loanable funds curve shifts rightward
 - C) real; a movement occurs down along the demand for loanable funds curve
 - D) nominal; the demand for loanable funds curve shifts rightward
 - E) real; a movement occurs up along the demand for loanable funds curve

Topic: The Market for Loanable Funds

- 41) If the real interest rate rises from 3 percent to 5 percent,
- A) the demand for loanable funds curve shifts rightward.
 - B) there is a movement up along the demand for loanable funds curve.
 - C) the supply of loanable funds curve shifts rightward.
 - D) there is a movement down along the supply of loanable funds curve.
 - E) the nominal interest rate falls.

Topic: The Market for Loanable Funds

- 42) A rise in the real interest rate
- A) shifts the demand for loanable funds curve rightward.
 - B) creates a movement up along the demand for loanable funds curve.
 - C) creates a movement down along the demand for loanable funds curve.
 - D) shifts the demand for loanable funds curve leftward.
 - E) none of the above.

Topic: The Market for Loanable Funds

- 43) A fall in the real interest rate
- A) creates a movement down along the demand for loanable funds curve.
 - B) shifts the demand for loanable funds curve leftward.
 - C) none of the above.
 - D) shifts the demand for loanable funds curve rightward.
 - E) creates a movement up along the demand for loanable funds curve.

Topic: The Market for Loanable Funds

- 44) The quantity of loanable funds demanded increases when
- A) the supply of loanable funds decreases.
 - B) the real interest rate falls.
 - C) the real interest rate rises.
 - D) expected profit decreases.
 - E) wealth increases.

Topic: The Market for Loanable Funds

- 45) A decrease in the real interest rate leads to a _____ the demand for loanable funds curve, and a decrease in expected profit leads to a _____ the demand for loanable funds curve.
- A) movement down along; movement up along
 - B) movement down along; rightward shift of
 - C) rightward shift of; movement up along
 - D) movement down along; leftward shift of
 - E) rightward shift of; leftward shift of

Topic: The Market for Loanable Funds

- 46) A decrease in the demand for loanable funds occurs when
- A) the government raises taxes.
 - B) expected profit decreases.
 - C) expected profit increases.
 - D) the real interest rate rises.
 - E) the government cuts taxes.

Topic: The Market for Loanable Funds

- 47) During a recession, firms decrease their profit expectations. As a result, there is a _____ shift of the _____ loanable funds curve.
- A) rightward; demand for
 - B) rightward, supply of
 - C) leftward; demand for loanable funds curve and supply of
 - D) leftward; demand for
 - E) rightward; supply of

Topic: The Market for Loanable Funds

Refer to the figure below to answer the following question.

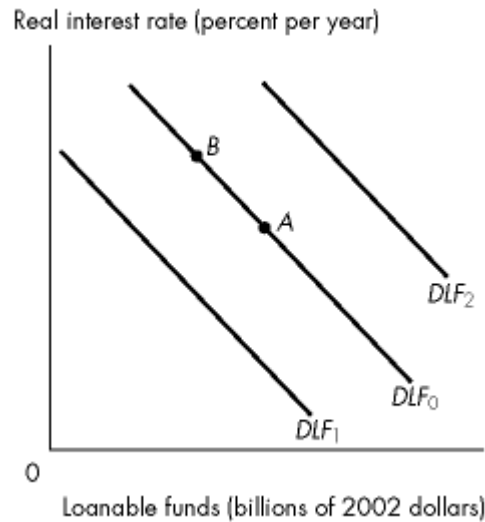


Figure 23.2.1

- 48) Refer to Figure 23.2.1. In Figure 23.2.1, the economy is at point A on the initial demand for loanable funds curve DLF_0 . What happens if the real interest rate rises?
- A) There is a movement to a point such as B on the demand for loanable funds curve DLF_0 .
 - B) The demand for loanable funds curve shifts rightward to curve DLF_2 .
 - C) The demand for loanable funds curve shifts leftward to curve DLF_1 .
 - D) Either A or B can occur.
 - E) Either A or C can occur.

Topic: The Market for Loanable Funds

Refer to the figure below to answer the following questions.

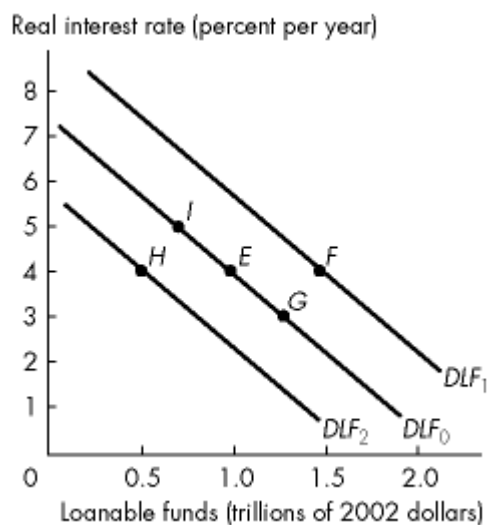


Figure 23.2.2

- 49) Refer to Figure 23.2.2. In Figure 23.2.2, a decrease in the real interest rate will result in a movement from point *E* to
- A) point *F*.
 - B) point *G*.
 - C) point *I*.
 - D) either point *G* or point *F*.
 - E) point *H*.

Topic: The Market for Loanable Funds

- 50) Refer to Figure 23.2.2. In Figure 23.2.2, an increase in expected profit will result in a movement from point *E* to
- A) point *H*.
 - B) point *F*.
 - C) either point *I* or point *F*.
 - D) point *G*.
 - E) point *I*.

Topic: The Market for Loanable Funds

- 51) Refer to Figure 23.2.2. In Figure 23.2.2, a decrease in expected profit will result in a movement from point *E* to
- A) either point *G* or point *H*.
 - B) point *F*.
 - C) point *I*.
 - D) point *G*.
 - E) point *H*.

Topic: The Market for Loanable Funds

Refer to the figure below to answer the following questions.

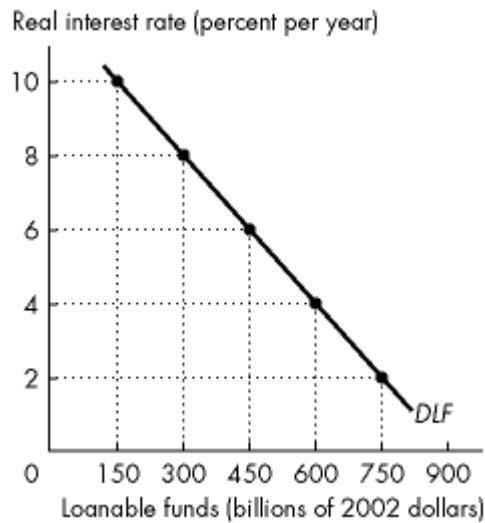


Figure 23.2.3

- 52) Refer to Figure 23.2.3. In Figure 23.2.3, if the real interest rate is 6 percent, the quantity of loanable funds demanded is
- A) \$150 billion.
 - B) \$450 billion.
 - C) only amount less than \$450 billion.
 - D) \$600 billion.
 - E) \$300 billion.

Topic: The Market for Loanable Funds

- 53) In Figure 23.2.3, if the real interest rate is constant at 6 percent and expected profit falls, the quantity of loanable funds demanded will be
- A) greater than \$600 billion.
 - B) less than \$450 billion.
 - C) zero.
 - D) \$450 billion.
 - E) between \$450 billion and \$600 billion.

Topic: The Market for Loanable Funds

- 54) In Figure 23.2.3, if the real interest rate is constant at 6 percent and expected profit rises, the amount of loanable funds demanded will be
- A) between \$300 billion and \$450 billion.
 - B) \$450 billion.
 - C) zero.
 - D) less than \$450 billion.
 - E) greater than \$450 billion.

Topic: The Market for Loanable Funds

- 55) All of the following are sources of loanable funds *except*
- A) private saving.
 - B) business investment.
 - C) government budget surplus.
 - D) international borrowing.
 - E) none of the above.

Topic: The Market for Loanable Funds

56) Which of the following influences household saving?

- I. The real interest rate.
 - II. Disposable income.
 - III. Expected future income.
- A) I only.
 - B) I, II, and III.
 - C) I and II.
 - D) I and III.
 - E) None of the above.

Topic: The Market for Loanable Funds

57) If households' disposable income decreases, then

- A) households' saving will decrease.
- B) households' saving will increase.
- C) the supply of loanable funds decreases.
- D) a movement occurs down along the supply of loanable funds curve.
- E) both A and C are correct.

Topic: The Market for Loanable Funds

58) Households will choose to save more if

- A) expected future income decreases.
- B) current disposable income increases.
- C) current disposable income decreases.
- D) both A and B are correct.
- E) both A and C are correct.

Topic: The Market for Loanable Funds

59) Which of the following is correct?

- A) As disposable income increases, the real interest rate rises.
- B) As disposable income decreases, saving decreases.
- C) The higher a household's wealth the greater is its saving.
- D) Both B and C are correct.
- E) Both A and C are correct.

Topic: The Market for Loanable Funds

60) _____ increases households' saving.

- A) A tax cut that increases disposable income
- B) An increase in wealth
- C) An increase in default risk
- D) A decrease in the real interest rate
- E) Higher expected future income

Topic: The Market for Loanable Funds

61) The greater a household's _____ the less is its saving.

- A) wealth
- B) return from saving
- C) disposable income
- D) expected future profit
- E) all of the above

Topic: The Market for Loanable Funds

- 62) As the _____ rises, the supply of loanable funds _____ other things remaining the same.
- A) inflation rate; increases
 - B) inflation rate; decreases
 - C) real interest rate; decreases
 - D) real interest rate; increases
 - E) nominal interest rate; increases

Topic: The Market for Loanable Funds

- 63) The supply of loanable funds is the relationship between the quantity loanable funds supplied and _____ other things remaining the same.
- A) the price level
 - B) the real interest rate
 - C) the inflation rate
 - D) the nominal interest rate
 - E) real GDP

Topic: The Market for Loanable Funds

- 64) The supply of loanable funds curve
- A) has a positive slope.
 - B) is upward sloping at low real interest rates and downward sloping at high real interest rates.
 - C) is vertical.
 - D) is horizontal.
 - E) has a negative slope.

Topic: The Market for Loanable Funds

- 65) Changes in all of the following *shift* the supply curve of loanable funds *except*
- A) expected future income.
 - B) wealth.
 - C) the real interest rate.
 - D) default risk.
 - E) disposable income.

Topic: The Market for Loanable Funds

- 66) Which of the following will shift the supply of loanable funds curve leftward?
- A) a decrease in the real interest rate
 - B) a decrease in disposable income
 - C) a decrease in real wealth
 - D) a decrease in expected future income
 - E) a decrease in default risk

Topic: The Market for Loanable Funds

- 67) An increase in _____ will shift the supply of loanable funds curve _____.
- A) wealth; leftward
 - B) disposable income; leftward
 - C) default risk; rightward
 - D) expected future income; rightward
 - E) the real interest rate; rightward

Topic: The Market for Loanable Funds

- 68) As a result of a recession, the default risk increases. How does this change affect the loanable funds market?
- A) There is a movement up along the supply of loanable funds curve.
 - B) There is a rightward shift of the supply of loanable funds curve.
 - C) There is a leftward shift of the supply of loanable funds curve.
 - D) There is a movement down along the demand for loanable funds curve.
 - E) There is a movement down along the demand for loanable funds curve.

Topic: The Market for Loanable Funds

- 69) When the real interest rate increases,
- A) the supply of loanable funds curve shifts rightward.
 - B) the supply of loanable funds curve shifts leftward.
 - C) there is a movement up along the supply of loanable funds curve.
 - D) the demand for loanable funds curve shifts leftward.
 - E) there is a movement down along the supply of loanable funds curve.

Topic: The Market for Loanable Funds

- 70) Which of the following is true?
- I. As the real interest rate increases, people increase the quantity they save.
 - II. The supply of loanable funds curve is downward sloping.
 - III. As disposable income increases, the supply of loanable funds curve becomes steeper.
- A) I only.
 - B) I and III only.
 - C) I, II, and III.
 - D) III only.
 - E) II and III only.

Topic: The Market for Loanable Funds

- 71) A decrease in disposable income _____.
- A) creates a movement up along the supply of loanable funds curve
 - B) has no effect on the supply of loanable funds curve
 - C) shifts the supply of loanable funds curve leftward
 - D) creates a movement down along the supply of loanable funds curve
 - E) shifts the supply of loanable funds curve rightward

Topic: The Market for Loanable Funds

- 72) If households believe they will experience higher income in the near future, there is a
- A) rightward shift of the supply of loanable funds curve.
 - B) rightward shift of the demand for loanable funds curve.
 - C) movement up along the supply of loanable funds curve.
 - D) movement up along the demand for loanable funds curve.
 - E) leftward shift of the supply of loanable funds curve.

Topic: The Market for Loanable Funds

Refer to the figure below to answer the following questions.

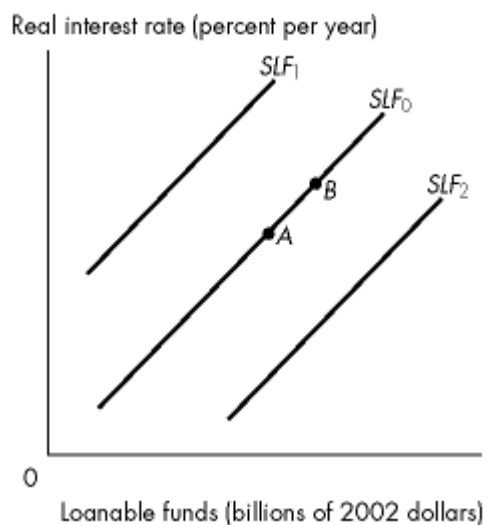


Figure 23.2.4

73) Refer to Figure 23.2.4. In Figure 23.2.4, the economy is at point A on the supply of loanable funds curve SLF_0 . What happens if disposable income decreases?

- A) There is a movement to a point such as B on the supply of loanable funds curve SLF_0 .
- B) The supply of loanable funds curve shifts rightward to a curve such as SLF_2 .
- C) Nothing; the economy would remain at point A.
- D) The supply of loanable funds curve shifts leftward to a curve such as SLF_1 .
- E) None of the above.

Topic: The Market for Loanable Funds

74) Refer to Figure 23.2.4. In Figure 23.2.4, the economy is at point A on the supply of loanable funds curve SLF_0 . What happens if the real interest rate rises?

- A) The supply of loanable funds curve shifts rightward to a curve such as SLF_2 .
- B) The supply of loanable funds curve shifts leftward to a curve such as SLF_1 .
- C) There is a movement to a point such as B on the supply of loanable funds curve SLF_0 .
- D) Nothing; the economy would remain at point A.
- E) None of the above.

Topic: The Market for Loanable Funds

75) In the market for loanable funds, as the real interest rate rises the _____ and the _____.

- A) quantity of loanable funds supplied decreases; quantity of loanable funds demanded increases
- B) supply of loanable funds increases; demand for loanable funds decreases
- C) supply of loanable funds decreases; demand for loanable funds increases
- D) quantity of loanable funds supplied increases; quantity of loanable funds demanded decreases
- E) quantity of loanable funds supplied increases; supply of loanable funds increases

Topic: The Market for Loanable Funds

76) The equilibrium real interest rate is determined by the

- A) banks and insurance companies.
- B) demand for loanable funds curve and real GDP.
- C) government expenditure curve and the taxation curve.
- D) supply of loanable funds curve and financial institutions.
- E) demand for loanable funds curve and the supply of loanable funds curve.

Topic: The Market for Loanable Funds

77) Suppose the current real interest rate is 4 percent and the equilibrium real interest rate is 3 percent. Choose the correct statement.

- A) There is a surplus of loanable funds.
- B) There is neither a shortage nor surplus of loanable funds.
- C) The demand for loanable funds decreases.
- D) There is a shortage of loanable funds.
- E) The supply of loanable funds increases.

Topic: The Market for Loanable Funds

78) If the quantity of loanable funds supplied exceeds the quantity of loanable funds demanded, then _____.

- A) the demand for loanable funds increases
- B) the real interest rate will fall
- C) the supply of loanable funds increases
- D) people will save more
- E) the real interest rate will rise

Topic: The Market for Loanable Funds

79) If the real interest rate is above the equilibrium real interest rate,

- A) a shortage of loanable funds exists.
- B) lenders are unable to find borrowers willing to borrow all of the available funds and the real interest rate falls.
- C) borrowers are unable to borrow all of the funds they want to borrow and the real interest rate rises.
- D) borrowers are unable to borrow all of the funds they want to borrow and the real interest rate falls.
- E) lenders are unable to find borrowers willing to borrow all of the available funds and the real interest rate rises.

Topic: The Market for Loanable Funds

80) If the real interest rate is below the equilibrium real interest rate,

- A) borrowers are unable to borrow all of the funds they want to borrow and the real interest rate falls.
- B) a surplus of loanable funds exists.
- C) borrowers are unable to borrow all of the funds they want to borrow and the real interest rate rises.
- D) lenders are unable to find borrowers willing to borrow all of the available funds and the real interest rate rises.
- E) lenders are unable to find borrowers willing to borrow all of the available funds and the real interest rate falls.

Topic: The Market for Loanable Funds

81) If the real interest rate is below the equilibrium real interest rate,

- A) lenders will be unable to find borrowers willing to borrow all of the available funds and the supply of loanable funds curve shifts rightward.
- B) lenders will be unable to find borrowers willing to borrow all of the available funds and the supply of loanable funds curve shifts leftward.
- C) a shortage of loanable funds exists, and the real interest rate rises.
- D) borrowers will be unable to borrow all of the funds they want to borrow and the demand for loanable funds curve shifts leftward.
- E) borrowers will be unable to borrow all of the funds they want to borrow and the demand for loanable funds curve shifts rightward.

Topic: The Market for Loanable Funds

82) In the market for loanable funds, if the interest rate is above the equilibrium level

- A) expected profit falls.
- B) a surplus of loanable funds exists.
- C) wealth increases.
- D) government expenditure decreases.
- E) a shortage of loanable funds exists.

Topic: The Market for Loanable Funds

- 83) An increase in disposable income shifts the supply of loanable funds curve
- A) rightward and increases the real interest rate.
 - B) rightward and decreases the real interest rate.
 - C) leftward and increases the real interest rate.
 - D) rightward and the demand for loanable funds curve leftward.
 - E) leftward and decreases the real interest rate.

Topic: The Market for Loanable Funds

- 84) Technological progress that increases expected profit shifts the demand for loanable funds curve
- A) rightward and decreases the real interest rate.
 - B) leftward and decreases the real interest rate.
 - C) rightward and the supply of loanable funds curve leftward.
 - D) rightward and increases the real interest rate.
 - E) leftward and increases the real interest rate.

Topic: The Market for Loanable Funds

- 85) What is the effect of a decrease in expected profit?
- A) The demand curve for loanable funds shifts rightward and the real interest rate rises.
 - B) The supply curve of loanable funds shifts rightward and the nominal interest rate rises.
 - C) The demand curve for loanable funds shifts leftward and the real interest rate falls.
 - D) A movement down along the demand curve for loanable funds occurs.
 - E) The real interest rate rises as saving increases.

Topic: The Market for Loanable Funds

- 86) If disposable income increases, people _____ saving, the supply of loanable funds will _____ and the real interest rate will _____.
- A) increase; decrease; rise
 - B) increase; increase; fall
 - C) decrease; increase; fall
 - D) decrease; decrease; rise
 - E) increase; increase; rise or fall depending on the shift of the demand curve for loanable funds

Topic: The Market for Loanable Funds

- 87) Suppose the market for loanable funds is in equilibrium. If expected profit falls, the equilibrium real interest rate _____ and the quantity of loanable funds _____.
- A) rises; increases
 - B) falls; increases
 - C) falls; increases or decreases but we don't know for sure
 - D) rises; decreases
 - E) falls; decreases

Topic: The Market for Loanable Funds

Refer to the figure below to answer the following questions.

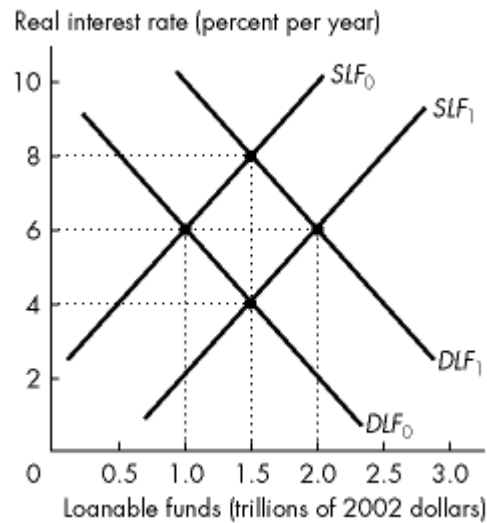


Figure 23.2.5

88) Refer to Figure 23.2.5. In Figure 23.2.5, the supply of loanable funds curve is SLF_0 and the demand for loanable funds curve is DLF_0 . An expansion that increases disposable income and expected profit

- A) shifts the demand for loanable funds curve rightward to curve DLF_1 and does not shift the supply of loanable funds curve.
- B) has no effect on either the demand for loanable funds curve or the supply of loanable funds curve.
- C) shifts the supply of loanable funds curve rightward to curve SLF_1 , and shifts the demand for loanable funds curve rightward to curve DLF_1 .
- D) shifts the supply of loanable funds curve rightward to curve SLF_1 and does not shift the demand for loanable funds curve.
- E) none of the above.

Topic: The Market for Loanable Funds

89) Refer to Figure 23.2.5. In Figure 23.2.5, the initial supply of loanable funds curve is SLF_0 and the initial demand for loanable funds curve is DLF_0 . An increase in the expected profit

- A) shifts the supply of loanable funds curve rightward to curve SLF_1 and does not shift the demand for loanable funds curve.
- B) shifts the demand for loanable funds curve rightward to curve DLF_1 and does not shift the supply of loanable funds curve.
- C) has no effect on either the demand for loanable funds curve or the supply of loanable funds curve.
- D) shifts the supply of loanable funds curve rightward to curve SLF_1 , and shifts the demand for loanable funds curve rightward to curve DLF_1 .
- E) none of the above.

Topic: The Market for Loanable Funds

90) Which of the following is *false*?

- A) $Y = C + I + G + M - X$
- B) $Y + M = C + I + G + X$
- C) $Y = C + I + G + X - M$
- D) $Y = C + S + T$
- E) $I = S + (T - G) + (M - X)$

Topic: The Market for Loanable Funds

91) In Canada's economy, investment is financed by

- A) $C + S + T$.
- B) $S + (T - G) + (M - X)$.
- C) $S + (T - G) + (X - M)$.
- D) $S + T + M$.
- E) $C + I + G + X - M$.

Topic: The Market for Loanable Funds

92) Investment will be higher if

- A) government spending is higher.
- B) national saving is higher.
- C) the real interest rate is higher.
- D) the government deficit is higher.
- E) net exports are higher.

Topic: The Market for Loanable Funds

93) Southton has investment of \$100, private saving of \$90, net taxes of \$25, government expenditure of \$30, exports of \$25 and imports of \$10. What is national saving?

- A) \$100
- B) \$85
- C) \$90
- D) \$95
- E) \$105

Topic: The Market for Loanable Funds

94) If net taxes exceed government expenditures, the government sector has a budget _____ and government saving is _____.

- A) deficit; negative
- B) surplus; negative
- C) balance that is zero; zero
- D) surplus; positive
- E) deficit; positive

Topic: Government in the Market for Loanable Funds

95) When a government has a budget surplus, the surplus

- A) decreases the demand for loanable funds.
- B) crowds-out private saving.
- C) helps finance investment.
- D) must be subtracted from private saving.
- E) increases the world real interest rate.

Topic: Government in the Market for Loanable Funds

96) When government saving is negative,

- A) the real interest rate falls.
- B) investment increases.
- C) the real interest rate rises.
- D) the supply of loanable funds increases.
- E) the real interest rate falls if crowding-out occurs.

Topic: Government in the Market for Loanable Funds

- 97) The tendency for a government budget deficit to decrease investment is called the
- A) government dissaving effect.
 - B) deficit effect.
 - C) Ricardo–Barro effect.
 - D) capital investment effect.
 - E) crowding–out effect.

Topic: Government in the Market for Loanable Funds

- 98) The crowding–out effect refers to
- A) private investment crowding out government saving.
 - B) private saving crowding out net taxes.
 - C) government spending crowding out private spending.
 - D) a government deficit crowding out investment.
 - E) private saving crowding out government saving.

Topic: Government in the Market for Loanable Funds

- 99) Crowding out leads to all of the following *except*
- A) a decrease in investment.
 - B) a smaller quantity of capital in the future.
 - C) a decrease in private saving.
 - D) a higher real interest rate.
 - E) crowding out leads to all of the above.

Topic: Government in the Market for Loanable Funds

- 100) If the government begins to run a larger budget deficit, the demand for loanable funds _____ and the real interest rate _____.
- A) increases; falls
 - B) decreases; rises
 - C) decreases; falls
 - D) increases; rises
 - E) increases; rises or falls depending on the change in the supply of loanable funds

Topic: Government in the Market for Loanable Funds

- 101) A government budget deficit _____ the demand for loanable funds and _____ investment.
- A) decreases; decreases
 - B) increases; decreases
 - C) increases; increases
 - D) increases; rises or falls depending on the change in the supply of loanable funds
 - E) decreases; increases

Topic: Government in the Market for Loanable Funds

- 102) A government budget deficit _____ the demand for loanable funds, _____ the real interest rate, and _____ investment.
- A) increases; increases; crowds out
 - B) decreases; increases; increases
 - C) increases; decreases; increases
 - D) decreases; increases; crowds out
 - E) increases; decreases; crowds out

Topic: Government in the Market for Loanable Funds

- 103) If China's government increases its budget surplus, there is _____ in the supply of loanable funds, private saving _____ and investment _____.
A) a decrease; decreases; increases
B) a decrease; increases; increases
C) an increase; decreases; increases
D) an increase; increases; increases
E) an increase; decreases; is crowded out

Topic: Government in the Market for Loanable Funds

- 104) The tendency for private saving to increase in response to growing government deficits is known as the
A) crowding out effect.
B) Keynes effect.
C) Ricardo-Barro effect.
D) money illusion effect.
E) Mulroney-Harper effect.

Topic: Government in the Market for Loanable Funds

- 105) According to the Ricardo-Barro effect,
A) taxpayers fail to foresee that government deficits imply higher future taxes.
B) a government deficit decreases the supply of loanable funds.
C) government deficits raise the real interest rate.
D) government budget deficits increase households' expected future disposable income.
E) households increase personal saving when governments run budget deficits.

Topic: Government in the Market for Loanable Funds

- 106) The Ricardo-Barro effect of a government budget deficit is
A) a large crowding-out effect that decreases investment.
B) a decrease in private saving.
C) a decrease in net exports.
D) a large crowding-out effect that decreases national saving.
E) an increase in private saving.

Topic: Government in the Market for Loanable Funds

- 107) The Ricardo-Barro effect holds that
A) a government budget deficit crowds out private investment.
B) a government budget deficit induces a decrease in saving that magnifies the crowding out effect.
C) equal increases in taxes and government expenditures have no effect on equilibrium real GDP.
D) a government budget deficit has no effect on the real interest rate.
E) none of the above.

Topic: Government in the Market for Loanable Funds

- 108) According to the Ricardo-Barro effect, government deficits
A) lead to a fall in the equilibrium real interest rate and an increase in investment.
B) lead to a rise in the equilibrium real interest rate, crowding out investment.
C) lead to simultaneous increases in private saving and have no effect on the equilibrium real interest rate and investment.
D) lead to simultaneous decreases in private saving and decreases in the equilibrium real interest rate and investment.
E) raise the real interest rate but have no effect on the nominal interest rate.

Topic: Government in the Market for Loanable Funds

- 109) According to the Ricardo-Barro effect,
- A) the government budget has no effect on the real interest rate.
 - B) financing government spending with taxes has a less severe effect on private investment than financing through government borrowing.
 - C) a government budget deficit crowds out private investment.
 - D) All of the above.
 - E) None of the above.

Topic: Government in the Market for Loanable Funds

- 110) If the Ricardo-Barro effect occurs, _____ in private saving finances the government budget deficit and the real interest rate _____.
- A) an increase; rises
 - B) an increase; remains the same
 - C) a decrease; increases
 - D) a decrease; remains the same
 - E) an increase; falls

Topic: Government in the Market for Loanable Funds

- 111) If the Ricardo-Barro effect occurs, a government budget deficit raises the equilibrium real interest rate by _____ and decreases the equilibrium quantity of investment by _____ if the Ricardo-Barro effect is absent.
- A) the same amount; the same amount as
 - B) more; less than
 - C) less; less than
 - D) less; more than
 - E) more; more than

Topic: Government in the Market for Loanable Funds

- 112) A decrease in the government budget deficit decreases the _____ loanable funds and an increase in the government budget surplus increases the _____ loanable funds.
- A) demand for; demand for
 - B) supply of; supply of
 - C) demand for; supply of
 - D) demand for loanable funds and the supply of; supply of loanable funds and the demand for
 - E) supply of; demand for

Topic: Government in the Market for Loanable Funds

Use the table below to answer the following question.

Table 23.3.1
Data from Northland

Real Interest Rate	Demand for Loanable Funds (billions of dollars)	Supply of Loanable Funds (billions of dollars)
3%	160	40
4%	140	60
5%	120	80
6%	100	100
7%	80	120
8%	60	140

- 113) Refer to Table 23.3.1. Table 23.3.1 shows the market for loanable funds in Northland. The government budget is balanced. If the government moves from a balanced budget to a surplus of \$20 billion, the new equilibrium has a real interest rate of _____ and quantity of loanable funds traded equal to _____.
- A) 6.5%; \$110 billion
 - B) 5.5%; \$110 billion
 - C) 6%; \$120 billion
 - D) 6.5%; \$90 billion
 - E) 5.5%; \$90 billion

Topic: Government in the Market for Loanable Funds

- 114) In the market for loanable funds, a larger government surplus leads to
- A) a higher real interest rate, and increased investment.
 - B) no effect on the real interest rate or investment.
 - C) a lower real interest rate, and decreased investment.
 - D) a higher real interest rate, and decreased investment.
 - E) a lower real interest rate, and increased investment.

Topic: Government in the Market for Loanable Funds

- 115) Choose the statement that is *incorrect*
- A) According to the Ricardo-Barro effect, a budget deficit has no effect on either the real interest rate or investment.
 - B) According to the Ricardo-Barro effect, the quantity of loanable funds demanded increases when a government budget deficit occurs, and private saving and the private supply of loanable funds increase to match the quantity of loanable funds demanded.
 - C) According to the Ricardo-Barro effect, taxpayers are rational people who know that a budget deficit today means that future taxes will be higher and future disposable incomes will be smaller.
 - D) Most economists believe that the Ricardo-Barro effect holds in the market for loanable funds.
 - E) All of the above statements are correct.

Topic: Government in the Market for Loanable Funds

- 116) A government budget surplus occurs, which _____ loanable funds. The real interest rate _____, household saving _____, and investment _____.
- A) decreases the demand for; falls; decreases; increases
 - B) increases the demand for; rises; increases; decreases
 - C) decreases the supply of; decreases; decreases; increases
 - D) increases the supply of; falls; increases; decreases
 - E) increases the supply of; falls; decreases; increases

Topic: Government in the Market for Loanable Funds

Refer to the table below to answer the following question.

Table 23.3.2

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2002 dollars)	Loanable funds supplied (trillions of 2002 dollars)
4	8.5	5.5
5	8.0	6.0
6	7.5	6.5
7	7.0	7.0
8	6.5	7.5
9	6.0	8.0
10	5.5	8.5

- 117) Refer to Table 23.3.2. The table shows an economy's demand for loanable funds and supply of loanable funds schedules when the government's budget is balanced. The quantity of loanable funds demanded increases by \$1 trillion at each real interest rate and the quantity of loanable funds supplied increases by \$2 trillion at each real interest rate. If the government wants investment to be \$9 trillion, it must _____ its budget balance by _____ trillion.
- A) decrease; \$1
 - B) increase; \$1.5
 - C) increase; \$2
 - D) increase; \$1
 - E) decrease; \$1.5

Topic: Government in the Market for Loanable Funds

Refer to the table below to answer the following question.

Table 23.3.3

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2002 dollars)	Loanable funds supplied (trillions of 2002 dollars)
4	7.5	4.5
5	7.0	5.0
6	6.5	5.5
7	6.0	6.0
8	5.5	6.5
9	5.0	7.0
10	4.5	7.5

- 118) Refer to Table 23.3.3. The table shows the demand for loanable funds schedule and the private supply of loanable funds schedule when the government's budget is balanced. If the Ricardo-Barro effect occurs, and if the government budget deficit is \$2.0 trillion, the real interest rate is _____ percent a year and the quantity of investment is _____ trillion.
- A) 9.0; \$7.0
 - B) 5.0; \$5.0
 - C) 7.0; \$6.0
 - D) 5.0; \$7.0
 - E) 3.0; \$7.5

Topic: Government in the Market for Loanable Funds

Refer to the table below to answer the following question.

Table 23.3.4

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2002 dollars)	Loanable funds supplied (trillions of 2002 dollars)
4	7.0	7.0
5	6.5	7.5
6	6.0	8.0
7	5.5	8.5
8	5.0	9.0
9	4.5	9.5
10	4.0	10.0

- 119) Refer to Table 23.3.4. The table shows an economy's demand for loanable funds schedule and the private supply of loanable funds schedule when the government's budget is balanced. If the government budget deficit is \$1.0 trillion, the real interest rate is _____ percent a year, the quantity of investment is _____ trillion, and the quantity of private saving is _____ trillion.

- A) 7; \$8.5; \$5.5
- B) 3; \$6.5; \$7.0
- C) 5; \$6.5; \$7.5
- D) 7; \$5.5; \$8.5
- E) 5; \$7.5; \$6.5

Topic: Government in the Market for Loanable Funds

Refer to the table below to answer the following question.

Table 23.3.5

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2002 dollars)	Loanable funds supplied (trillions of 2002 dollars)
4	8.5	4.5
5	8.0	5.0
6	7.5	5.5
7	7.0	6.0
8	6.5	6.5
9	6.0	7.0
10	5.5	7.5

- 120) Refer to Table 23.3.5. The table shows an economy's demand for loanable funds schedule and supply of loanable funds schedule when the government's budget is balanced. If the government budget surplus is \$2.0 trillion, the real interest rate is _____ percent a year, the quantity of investment is _____ trillion, and the quantity of private saving is _____ trillion.

- A) 10; \$7.5; \$5.5
- B) 8; \$6.5; \$6.5
- C) 6; \$7.5; \$5.5
- D) 6; \$7.5; \$7.5
- E) 10; \$5.5; \$7.5

Topic: Government in the Market for Loanable Funds

- 121) If we import more than we export from the rest of the world we
- A) have a surplus of funds at the world equilibrium interest rate.
 - B) are a net lender of funds to the rest of the world.
 - C) are running a trade surplus.
 - D) are helping to finance investment in the rest of the world.
 - E) are a net borrower of funds from the rest of the world.

Topic: The Global Loanable Funds Market

- 122) Real interest rates around the world tend to
- A) differ because inflation rates differ across countries.
 - B) be equal because trading partners would not do business otherwise.
 - C) be quite different because no two countries are exactly the same.
 - D) be equal after adjusting for differences in risk because financial capital seeks the highest possible return.
 - E) none of the above.

Topic: The Global Loanable Funds Market

- 123) The real interest rate is _____ in Canada compared to Zimbabwe because _____.
- A) lower; Canada is a net borrower
 - B) higher; more firms want to borrow financial capital in Canada than in Zimbabwe
 - C) lower; there is a lower risk premium in Canada
 - D) higher; the supply of loanable funds is greater in Canada
 - E) higher; Zimbabwe is a net borrower

Topic: The Global Loanable Funds Market

- 124) A small country is a net foreign borrower. Its real interest rate without foreign borrowing is _____ the world real interest rate.
- A) lower than
 - B) either higher than or equal to
 - C) equal to
 - D) higher than
 - E) not comparable to

Topic: The Global Loanable Funds Market

- 125) A very small country is a net foreign borrower and its supply of loanable funds increases. As a result, the equilibrium quantity of loanable funds used in the country _____ and the country's foreign borrowing _____.
- A) increases; decreases
 - B) does not change; does not change
 - C) increases; does not change
 - D) does not change; decreases
 - E) does not change; increases

Topic: The Global Loanable Funds Market

- 126) A very small country is a net foreign borrower and its demand for loanable funds increases. As a result, the equilibrium quantity of loanable funds used in the country _____ and the country's foreign borrowing _____.
- A) does not change; does not change
 - B) does not change; increases
 - C) increases; increases
 - D) increases; does not change
 - E) increases; decreases

Topic: The Global Loanable Funds Market

- 127) A very small country is a net foreign lender and its supply of loanable funds increases. As a result, the equilibrium quantity of loanable funds used in the country _____ and the country's foreign lending _____.
- A) does not change; decreases
 - B) increases; decreases
 - C) does not change; does not change
 - D) does not change; increases
 - E) increases; does not change

Topic: The Global Loanable Funds Market

- 128) If the world real interest rate falls, then a country that is a net foreign lender
- A) changes from being a net foreign lender to a net foreign borrower.
 - B) increases the amount of its lending.
 - C) does not change the amount of its lending.
 - D) decreases the amount of its lending.
 - E) none of the above.

Topic: The Global Loanable Funds Market

- 129) Loanable funds flow among countries because _____.
- A) including differences in risk, the real interest rate is always higher in some countries than in others and this real interest rate differential will not change
 - B) funds flow into the country with the highest real interest rate and out of the country in which the real interest rate is lowest
 - C) it creates more stability for domestic businesses to have foreign investors
 - D) funds flow into the country with the highest nominal interest rate and out of the country in which the nominal interest rate is lowest
 - E) rational investors want diversified portfolios

Topic: The Global Loanable Funds Market

- 130) In an individual economy that is integrated into the global market, the demand for loanable funds is determined by the _____ demand and the supply of loanable funds is determined by the _____ supply.
- A) world's; country's
 - B) world's; World Bank's
 - C) country's; world's
 - D) country's; country's
 - E) world's; world's

Topic: The Global Loanable Funds Market

- 131) If a country has a shortage of loanable funds at the world real interest rate _____.
- A) the demand for loanable funds in this country decreases
 - B) the country increases its net exports
 - C) the world interest rate falls
 - D) world suppliers of loanable funds move funds to this country
 - E) the country decreases its net exports

Topic: The Global Loanable Funds Market

- 132) An increase in the government budget deficit _____. If the country is an international borrower, the government budget deficit _____. If the country is an international lender, the government budget deficit _____.
- A) increases the country's supply of loanable funds; decreases foreign lending; increases foreign borrowing
 - B) decreases the country's demand for loanable funds; decreases foreign lending; increases foreign borrowing
 - C) decreases the country's supply of loanable funds; increases foreign borrowing; decreases foreign lending
 - D) increases the country's demand for loanable funds; decreases foreign borrowing; increases foreign lending
 - E) increases the country's demand for loanable funds; increases foreign borrowing; decreases foreign lending

Topic: The Global Loanable Funds Market

Answer Key

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|-------|--------|--------|
| 1) A | 59) B | 117) D |
| 2) C | 60) A | 118) C |
| 3) D | 61) A | 119) C |
| 4) E | 62) D | 120) C |
| 5) A | 63) B | 121) E |
| 6) A | 64) A | 122) D |
| 7) E | 65) C | 123) C |
| 8) C | 66) B | 124) D |
| 9) E | 67) A | 125) D |
| 10) E | 68) C | 126) C |
| 11) A | 69) C | 127) D |
| 12) E | 70) A | 128) D |
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| 39) B | 97) E | |
| 40) E | 98) D | |
| 41) B | 99) C | |
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| 43) A | 101) B | |
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| 45) D | 103) C | |
| 46) B | 104) C | |
| 47) D | 105) E | |
| 48) A | 106) E | |
| 49) B | 107) D | |
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| 51) E | 109) A | |
| 52) B | 110) B | |
| 53) B | 111) C | |
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| 56) B | 114) E | |
| 57) E | 115) D | |
| 58) D | 116) E | |

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