Choose the one alternative that best completes the statement or answers the question.

1) The term "capital," as used in macroeconomics, refers to 1) ________
A) the plant, equipment, buildings, and inventories of raw materials and semi–finished goods.
B) the sum of investment and government purchases of goods.
C) financial wealth.
D) investment.

2) 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. You pay no taxes. Your wealth at the end of the year is 2) ________
A) $0. B) $100,000.00. C) $90,000.00. D) $20,000.00.

3) A decrease in disposable income shifts the ________. 3) ________
A) demand for loanable funds curve rightward
B) demand for loanable funds curve leftward
C) supply of loanable funds curve rightward
D) supply of loanable funds curve leftward

4) A decrease in the government budget deficit decreases the ________ loanable funds and an increase in the government budget surplus increases the ________ loanable funds. 4) ________
A) demand for; demand for
B) supply of; supply of
C) demand for; supply of
D) supply of; demand for

5) A 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 ________. 5) ________
A) does not change; decreases
B) increases; does not change
C) does not change; does not change
D) does not change; increases

6) If the world real interest rate falls, then a country that is a net foreign lender 6) ________
A) increases the amount of its lending.
B) None of the above answers is correct because lending might increase, decrease, or not change.
C) decreases the amount of its lending.
D) does not change the amount of its lending.

Write your answer in the space provided or on a separate sheet of paper.

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2005 dollars)	Loanable funds supplied (trillions of 2005 dollars)
10	0.7	1.5
8	0.9	1.3
6	1.1	1.1
4	1.4	0.9
2	1.7	0.7

7) The table above shows the loanable funds supply and demand schedules.
a) What is the equilibrium real interest rate and the equilibrium quantity of loanable funds?
b) If the real interest rate is 4 percent, is there a shortage or surplus? What will happen in the market?

Real interest rate (percent per year)	Supply of loanable funds (2005 dollars)	Demand for loanable funds (2005 dollars)
5	2,000	5,000
7	3,000	4,000
9	4,000	3,000
11	5,000	2,000

8) The economy of Dream Island, which is isolated from the rest of the world, has the supply of loanable funds schedule and the demand for loanable funds schedule shown in the table above. As it happens, all of the supply of loanable funds are from households' saving and the entre demand for loanable funds is from firms' investment demand.
a) Draw the demand and supply curves.
b) What is the equilibrium real interest rate?
c) What is equilibrium investment? Equilibrium saving?
d) Describe the situation in Dream Island's loanable funds market when the real interest rate is 10 percent. Is there a shortage of loanable funds? A surplus of loanable funds?
e) Describe the situation in Dream Island's capital market when the real interest rate is 6 percent. Is there a shortage of loanable funds? A surplus of loanable funds?