Choose the one	alternative	that best	t complete	s the statement	t or answers	the auestion.

		ories of raw materials and	d semi-finished goods.	1)
2) At the beginning of the y \$90,000 and you spend \$6 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 e funds curve rightward	·		3)
	e funds curve leftward funds curve rightward			
4) A decrease in the govern	9		ble funds and an increase	4)
in the government budge	_			
A) demand for; demar		B) supply of; supply		
C) demand for; supply	of	D) supply of; demai	nd for	
5) A small country is a net f	oreign borrower and its	supply of loanable funds	increases. As a result,	5)
the equilibrium quantity borrowing	of loanable funds used in	n the country ar	nd the country's foreign	
A) does not change; de	ecreases	B) increases; does n	ot change	
C) does not change; do		D) does not change;	_	
6) If the world real interest	rate falls, then a country	that is a net foreign lende	er	6)
A) increases the amou	nt of its lending.			
B) None of the above a C) decreases the amou		e lending might increase	, decrease, or not change.	
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	Loanable funds	Loanable funds	
rate	demanded	supplied	
(percent per	(trillions of	(trillions of	
year)	2005 dollars)	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	Supply of	Demand for	
	loanable funds	loanable funds	
(percent per year)	(2005 dollars)	(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?