AP Macroeconomics: Objective 4.3 Practice – Loanable Funds

1. For each of the following scenarios, draw a correctly labeled graph of the loanable funds market, show how the scenario affects either the demand or supply curve (and explain why), and show the new equilibrium real interest rate and quantity of loanable funds.

   a) The federal government passes a new investment tax credit.

   b) The federal government increases the tax rate on interest from savings accounts.

   c) The federal government reduces taxes and increases spending.

2. Now go back and look at part c above. How will this government action affect long run economic growth? Explain your answer.

3. What has the government action in part c done to the amount of loanable funds in the market? What is the term for this?