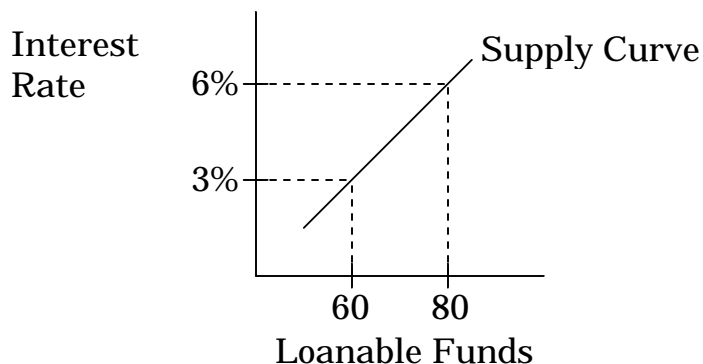


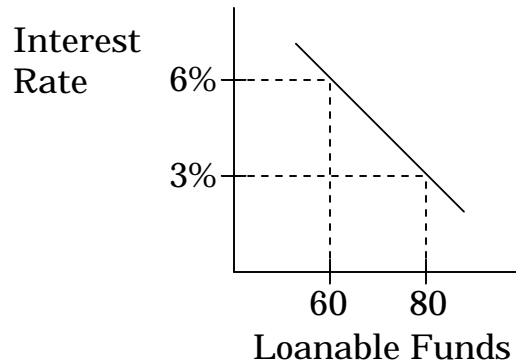
ECON 2105 Rajaram Test # 2FridayFebruary 29

Market for Loanable Funds

- A supply-demand model of financial system.
- Helps us understand:
 - How financial systems coordinates savings and investment
 - How government policies and other factors affect savings, investments, and interest rates.
- Assume: only one financial market where:
 - All savers deposit their savings
 - All borrowers take out loans
 - There is one interest rate, which is both the return to saving and the cost of borrowing
- The supply of Loanable funds comes from saving: households have extra income, they loan it out, and earn interest.
- Public saving (if positive) increases national savings, which increase supply of Loanable funds. (If negative, opposite effect.)
- An increased interest rate (savings become more attractive), there is an increased quantity of Loanable funds supplied.



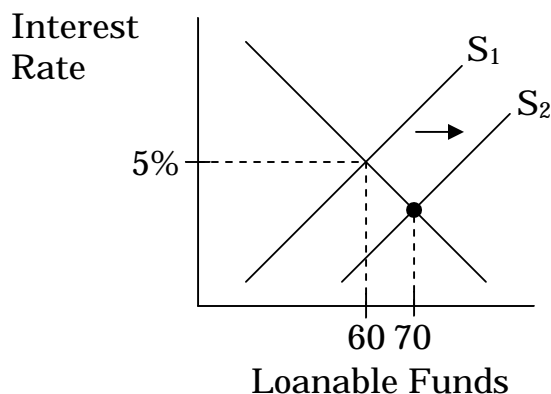
- The demand for Loanable funds comes from investment.
 - Firms have new equipment and factories.
 - Households purchase new houses.
- A decrease in interest rate causes a decrease in the cost of borrowing resulting in an increase in quantity of Loanable funds demanded.



- Equilibrium: the interest rate adjusts to equate supply and demand.
 - The equilibrium quantity equals the equilibrium in investment and the equilibrium in savings (in a close economy).

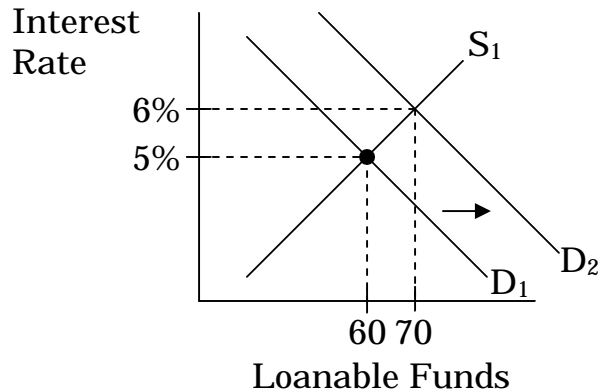
Policy 1: Saving Incentives

- Tax incentives for saving increase the supply of Loanable funds, resulting in a decrease in the equilibrium interest rate and an increase in the equilibrium quantity of Loanable funds.



Policy 2: Investment Incentives

- An investment in tax credit increases the demand for Loanable funds and increases the interest rate.



Budget Deficits

- An increase in budget deficit, there is a decrease in investment.
- The government borrows to finance its deficit, having less funds available for investment; this is called crowding out.
- Recall investment is important for long-run economic growth.
 - Budget deficits reduce the economy's growth rate and future standard of living.
- Supply curve= savings (supply curve shifts to the left if there is a deficit).
- Supply of Loanable funds= savings; demand= investment.

CHAPTER 15–Unemployment

Labor Force Statistics

- Produced by the Bureau of Labor Statistics (BLS) in the U.S. Department of Labor.
- Based on regular survey of 60,000 households.
- Based on “adult population” (16 years and older)

- BLS divides population into 3 groups:
 - Employed: paid employees, self-employed, and unpaid workers in a family business.
 - Unemployed: people not working who have looked for work during the previous 4 weeks.
 - Just because you don't have a job- you're not specifically unemployed.
 - Not in the labor force: everyone else (not working and not trying either).
- Labor force: the total number of workers including the employed and unemployed.
- Unemployment rate ("u-rate"): % of the labor force that is unemployed.
 - $U \text{ rate} = 100 * (\text{number of unemployed} / \text{labor force})$
- Labor force participation rate: % of the adult population that is in the labor force.
 - $= 100 * (\text{labor force} / \text{adult population})$
- Active learning answers:
 - U-rate: $100 * (7.0 / 150.1) = 4.7\%$
 - Labor Force participation: $100 * (150.1 / 277.5) = 66\%$
 - Adult population: $150.1 + 77.4 = 227.5$ (labor force + not in labor force)
- The BLS publishes these statistics for demographic for groups within the population.
- These data reveal widely different labor market experiences for different groups.