Quiz # 6
Dr. Nath

Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 1. The source of the supply of loanable funds
   a. is saving and the source of demand for loanable funds is investment.
   b. is investment and the source of demand for loanable funds is saving.
   c. and the demand for loanable funds is saving.
   d. and the demand for loanable funds is investment.

____ 2. If the demand for loanable funds shifts to the right, then the equilibrium interest rate
   a. and quantity of loanable funds rise.
   b. and quantity of loanable funds fall.
   c. rises and the quantity of loanable funds falls.
   d. falls and the quantity of loanable funds rises.

____ 3. Suppose a country has a consumption tax that is similar to a state sales tax. If its government were to eliminate the consumption tax and replace it with an income tax that includes an income tax on interest from savings, what would happen?
   a. There would be no change in the interest rate or saving.
   b. The interest rate would decrease and saving would increase.
   c. The interest rate would increase and saving would decrease.
   d. None of the above is correct.

____ 4. Other things the same, a government budget deficit
   a. reduces public saving, but not national saving.
   b. reduces national saving, but not public saving.
   c. reduces both public and national saving.
   d. reduces neither public saving nor national saving.

____ 5. Suppose government expenditures on goods and services increase, transfers are unchanged, and taxes rise by less than the increase in expenditures. These changes in the government’s budget cause
   a. both the equilibrium interest rate and the equilibrium quantity of loanable funds to fall.
   b. both the equilibrium interest rate and the equilibrium quantity of loanable funds to rise.
   c. the equilibrium interest rate to rise and the equilibrium quantity of loanable funds to fall.
   d. the equilibrium interest rate to fall and the equilibrium quantity of loanable funds to rise.
Figure 26-1. The figure depicts a demand-for-loanable-funds curve and two supply-of-loanable-funds curves.

6. Refer to Figure 26-1. Which of the following events would shift the supply curve from S1 to S2?
   a. In response to tax reform, firms are encouraged to invest more than they previously invested.
   b. In response to tax reform, households are encouraged to save more than they previously saved.
   c. Government goes from running a balanced budget to running a budget deficit.
   d. Any of the above events would shift the supply curve from S1 to S2.

7. In a closed economy, what does \((T - G)\) represent?
   a. national saving
   b. investment
   c. private saving
   d. public saving

8. In a closed economy, national saving equals
   a. investment.
   b. income minus the sum of consumption and government purchases.
   c. private saving plus public saving.
   d. All of the above are correct.

9. Which of the following is not always correct for a closed economy?
   b. Net exports equal zero.
   c. Real GDP measures both income and expenditures.
   d. Private saving equals investment.

10. Which of the following would a macroeconomist consider as investment?
    a. Charlie purchases a bond issued by Proctor and Gamble Corp.
    b. Karlee purchases stock issued by Texas Instruments, Inc.
    c. Mariah builds a new coffee shop.
    d. All of the above are correct.
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Answer Section

MULTIPLE CHOICE

1. ANS: A  PTS: 1  DIF: 1  REF: 26-3  
   NAT: Analytic  LOC: Understanding and applying economic models  
   TOP: Market for loanable funds  MSC: Definitional

2. ANS: A  PTS: 1  DIF: 1  REF: 26-3  
   NAT: Analytic  LOC: Understanding and applying economic models  
   TOP: Market for loanable funds  MSC: Interpretive

3. ANS: C  PTS: 1  DIF: 3  REF: 26-3  
   NAT: Analytic  LOC: Understanding and applying economic models  
   TOP: Saving | Interest rates  MSC: Analytical

4. ANS: C  PTS: 1  DIF: 2  REF: 26-3  
   NAT: Analytic  LOC: Understanding and applying economic models  
   TOP: Budget deficits | Public saving | National saving  MSC: Interpretive

5. ANS: C  PTS: 1  DIF: 2  REF: 26-3  
   NAT: Analytic  LOC: Understanding and applying economic models  
   TOP: Budget deficits | Market for loanable funds  MSC: Analytical

6. ANS: B  PTS: 1  DIF: 2  REF: 26-3  
   NAT: Analytic  LOC: Understanding and applying economic models  
   TOP: Market for loanable funds  MSC: Interpretive

7. ANS: D  PTS: 1  DIF: 1  REF: 26-2  
   NAT: Analytic  LOC: The study of economics and definitions in economics  
   TOP: Public saving  MSC: Definitional

8. ANS: D  PTS: 1  DIF: 2  REF: 26-2  
   NAT: Analytic  LOC: The study of economics and definitions in economics  
   TOP: National saving  MSC: Interpretive

9. ANS: D  PTS: 1  DIF: 1  REF: 26-2  
   NAT: Analytic  LOC: The study of economics and definitions in economics  
   TOP: Closed economies  MSC: Interpretive

10. ANS: C  PTS: 1  DIF: 1  REF: 26-2  
    NAT: Analytic  LOC: The study of economics and definitions in economics  
    TOP: Investment  MSC: Interpretive