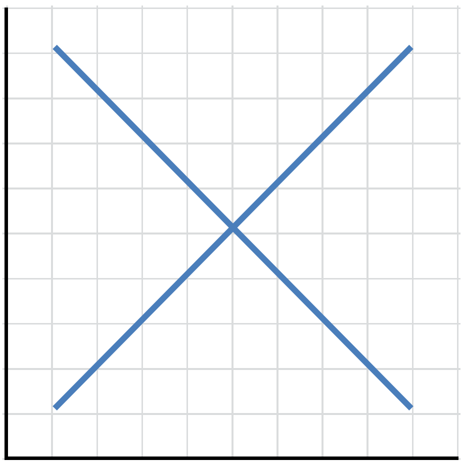
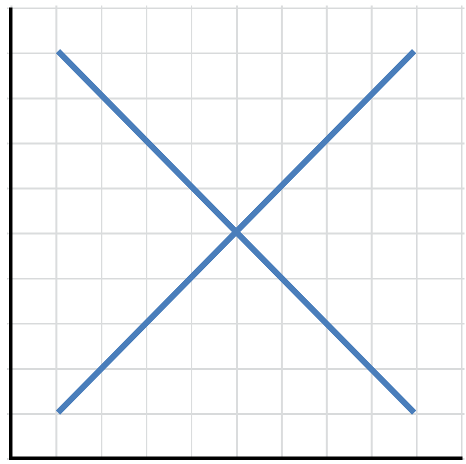
CONCEPT: SHIFTS IN THE MARKET FOR LOANABLE FUNDS

● The ***demand for loanable funds*** is dependent on the borrowing needs of firms and government. Shifts in demand occur:

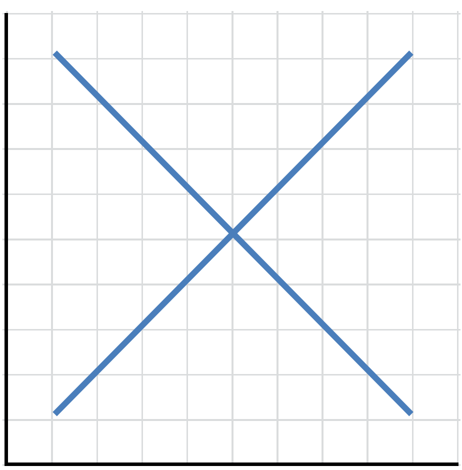
□ Firms: *Changes in* ________________ *of future profits*

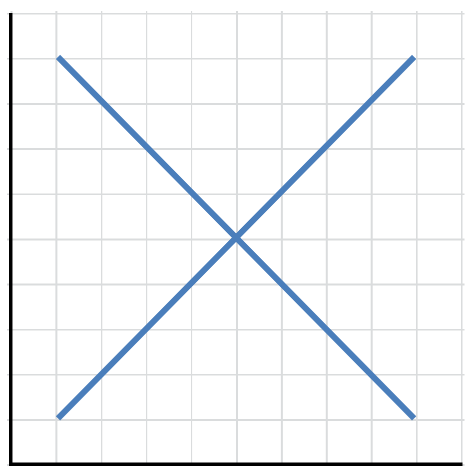
> Example: An increase in available technology increases business opportunities



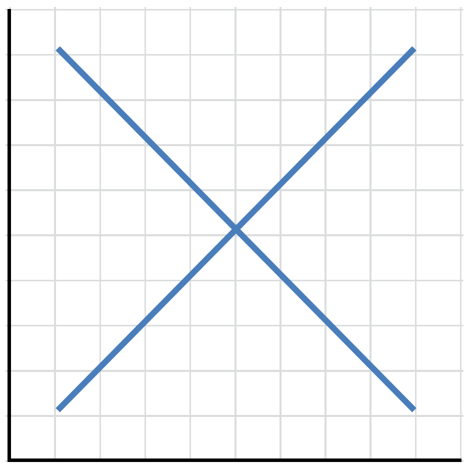


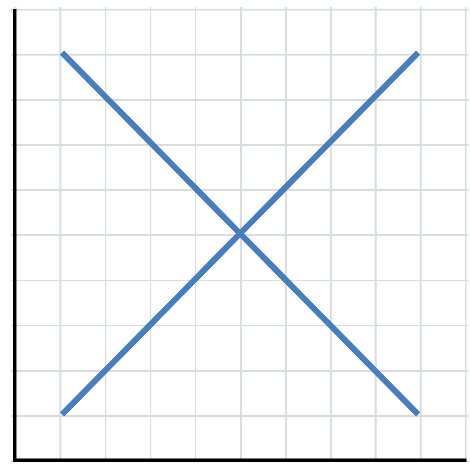
□ Firms: *Changes in corporate tax rates*





□ Government: *Changes in government's need for funds*





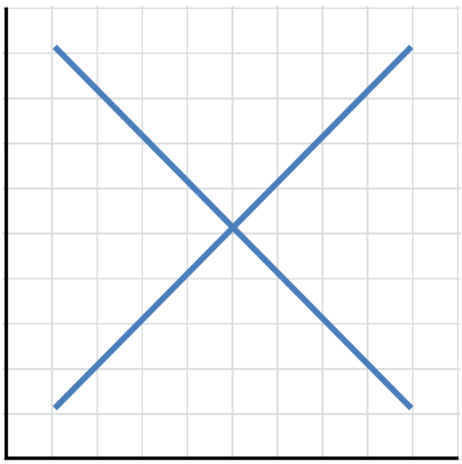
PRACTICE: The scientists at University of Coloralabaska have discovered an insanely efficient teleportation device useful that revolutionized the shipping and delivery industry. How would this invention affect the market for loanable funds?

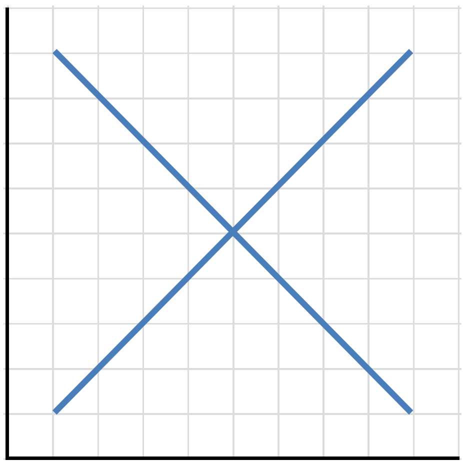
a) Demand for loanable funds would increase, leading to a higher equilibrium interest rate
b) Demand for loanable funds would increase, leading to a lower equilibrium interest rate
c) Demand for loanable funds would decrease, leading to a higher equilibrium interest rate
d) Demand for loanable funds would decrease, leading to a lower equilibrium interest rate

● The ***supply of loanable funds*** is dependent on the ability to save of households and government. Shifts in supply occur:

□ Households: *Changes in savings incentives*

> Example: tax benefits from 401(k) retirement accounts increase the incentive to save





□ Government: *Changes in the government's budget deficit or surplus*

> ***Budget Surplus*** – When the government's tax revenue ______________ its spending

> ***Budget Deficit*** – When the government's tax revenue ______________ its spending

> ***Public Savings*** – The amount of tax revenue the government has left after paying for its spending

> If the government is running a budget deficit, it is not contributing to national savings

- Savings are the supply of loanable funds