AP MACROECONOMICS • EXERCISE SHEET

4.7 The Loanable Funds Market

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

KEY WORDS loanable funds market 可贷资金市场 • equilibrium real interest rate 实际利率 • nominal interest rate 名义利率

Objective

Build the skills to answer exam questions on **the loanable funds market**.

You must be able to:

- describe the **loanable funds market** 可贷资金市场, where saving is supplied and borrowing demanded
- determine the **equilibrium real interest rate** 实际利率
- analyse how government borrowing, saving, or investment demand shift the market

1 Worked examples

Study these first. Each one shows the method for a question type used later.

The loanable funds market

Savers supply loanable funds; **borrowers** (firms investing and the government) demand them.

Equilibrium

The **real interest rate** where the quantity of funds saved equals the quantity borrowed.

Shifts

- More **government borrowing** → demand shifts right → real rate **up** (crowding out).
- More **saving** → supply shifts right → real rate **down**.

2 Practice

2.1 State who supplies and who demands loanable funds. [2]

2.2 State what is determined in the loanable funds market. [1]

2.3 State the effect of increased government borrowing on the real interest rate. [1]

3 Exam-style questions

3.1 In the loanable funds market, the "price" is the [1]

A nominal interest rate
B real interest rate
C exchange rate
D price level

3.2 An increase in saving shifts the supply of loanable funds [1]

A to the left
B to the right
C not at all
D vertically

3.3 The government runs a large budget deficit and borrows heavily.

(a) State the effect on the demand for loanable funds. [1]

(b) State the effect on the real interest rate. [1]

(c) Name the effect this has on private investment. [1]