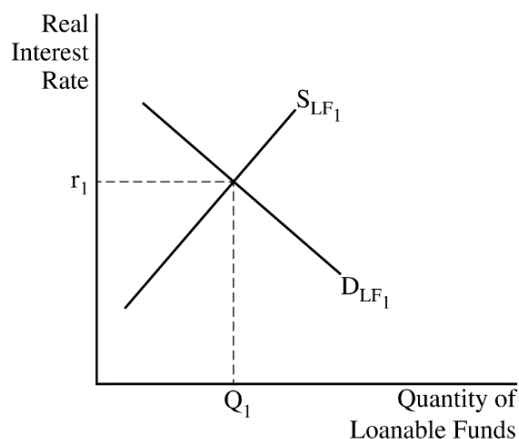


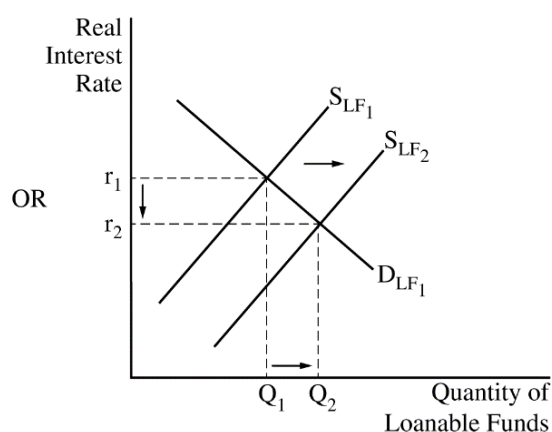
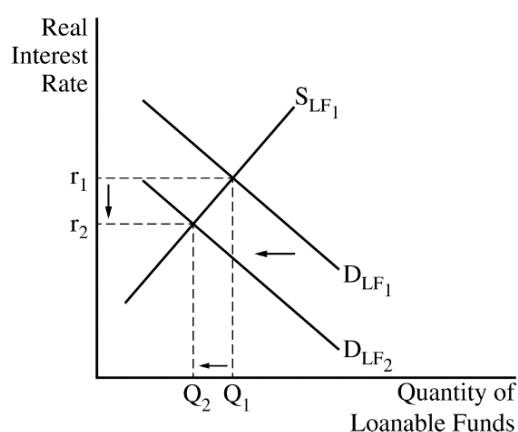
Question 3: Short**5 points**

(a) State increase taxes, decrease government spending, or decrease transfer payments. **1 point**

(b) Draw a correctly labeled graph of the loanable funds market. **1 point**



For the second point, the graph must show a leftward shift of the demand for loanable funds curve (or a rightward shift of the supply of loanable funds curve), resulting in a decrease in the real interest rate.

1 point**Total for part (b) 2 points**

(c) (i) State that aggregate demand will increase and explain that interest-sensitive spending (consumption, investment, or net exports) will increase. **1 point**

(ii) State that potential real output will increase and explain that the decrease in the real interest rate means the cost of borrowing has decreased, which increases investment spending on plant and equipment and increases capital formation. **1 point**

Total for part (c) 2 points**Total for question 3 5 points**