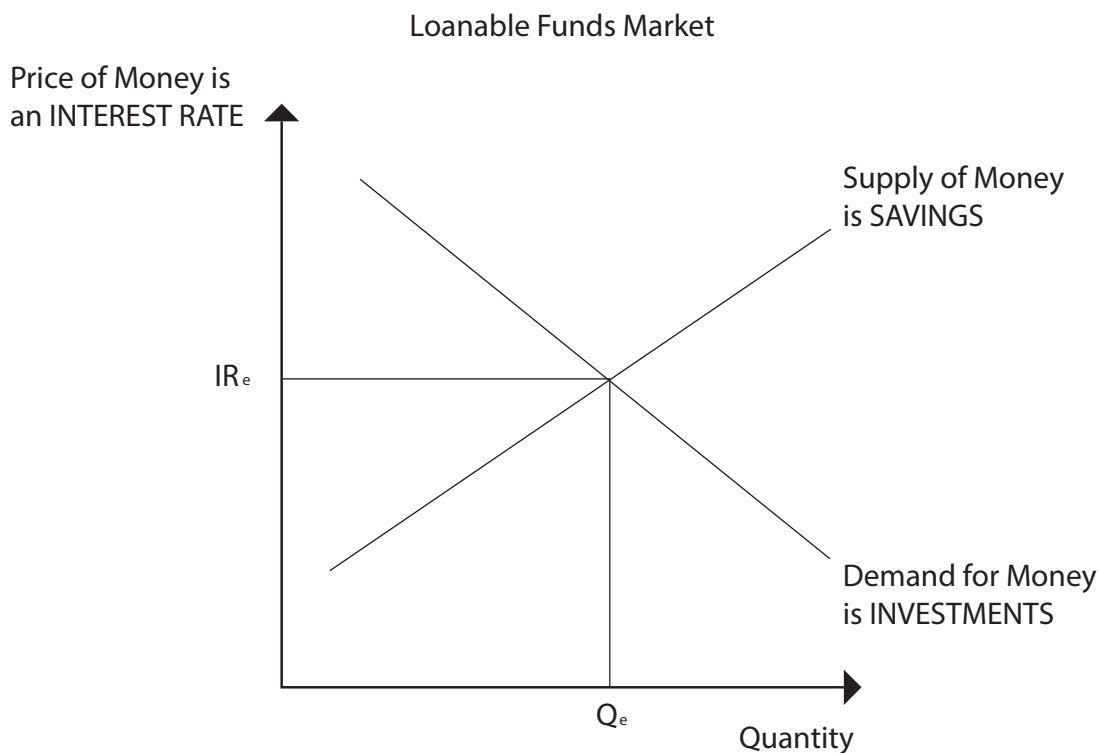


Handout B: Loanable Funds Market

Background: Governmental policy often influences savings and investments. We last looked at the difference between saving and investment and as a review, savings is the money left over after bills have been paid. Investment is spending on items that will produce something in the future. From an economic graph point-of-view this can be shown in the “Loanable Funds Market.”



Anything that encourages people to save more will move the SAVINGS line to the right and will lower interest rates and increase the quantity of investments. If savings decrease, interest rates will increase and the quantity of investments will decrease.

Anything that encourages businesses or people to invest more will move the INVESTMENTS line to the right and will increase interest rates and investments. If investments decrease, interest rates and investments will decrease.

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Directions: Given the following scenarios, determine if the government action affects saving or investing. Then write a sentence explaining what happens in the loanable funds market (interest rates increase/decrease and quantity of investments increase/decrease). The first scenario is completed for you.

Action	Supply - Savings	Demand - Investing	Explanation
The government does not tax the first \$17,500 saved for retirement.	Increase savings		Lower taxes on savings should encourage people to save more. This will lower interest rates and increase quantity invested.
The government allows businesses to write off investments as a business expense and therefore does not tax investments.			
The government allows real estate companies to pass their profits onto investors so as not to “double-tax” corporate profits (lower taxes on investments).			
The government will give up to \$1,000 to poorer citizens when they contribute to their retirement plans.			
The government doubles taxes on corporate profits and individual income from their personal investments.			
The government gives a tax credit to people who buy hybrid cars.			
The government increases taxes on corporate profits.			

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Action	Supply - Savings	Demand - Investing	Explanation
The government increases taxes on savings.			
The government gives a tax credit to businesses who invest in solar and wind energy.			