ECO102 MT2 Practice Questions

Question 1

- Consider an economy where the supply and demand for loans are given by (r is in percent, e.g. 3%, loans are in dollars):

$$\text{Demand} : r = 10 - 0.2I$$

$$\text{Supply} : r = 2 + 0.5S$$

- Plot the two lines and show what the equilibrium interest and investment/savings are.
- Suppose that technological advancement occurs and this raises firm productivity. How might this change your plot?

Question 2

Consider the following simple planned aggregate expenditure model, where all values are expressed in dollars: