

Chapter 9

Homework Assignment

1. Using the information given below for the fictitious country "Alpha," find each of the following:
 - a. public saving
 - b. private saving
 - c. national saving
 - d. the national saving rate

Household saving	200
Business saving	300
Government purchases of goods and services	80
Government transfers and interest payments	100
Tax collections	220
GDP	1800

2. Identify each of the most likely purpose of the following types of savings accounts as life-cycle (L), precautionary (P), or bequest (B) saving.
 - a. a college fund account
 - b. an account established in the name of a grandchild
 - c. a "rainy day" account
 - d. a retirement account
 - e. an account earmarked for the down payment on a house
 - f. an emergency account
3. Use a graph to determine the effect on equilibrium interest rates and national saving for each of the following changes.
 - a. People believe a recession is imminent and begin to worry about job security.
 - b. A new technology is introduced. It effects production in industries throughout the economy.
 - c. The demonstration effect becomes more pronounced in society.

Key

- 1.a. $220 - 80 - 100 = 40$
- b. $200 + 300 = 500$
 - a. $40 + 500 = 540$
 - b. $540/1800 = .022$ or 2.2%

- 2.a. L

- b. B
- c. P
- d. L
- e. L
- f. P

3.a. This increases the supply of saving (precautionary saving) which reduces the interest rate and increases the equilibrium quantity of saving.

b. This will increase the demand for saving (technological advance) which will increase the interest rate and increase the equilibrium quantity of saving.

c. This will decrease the supply of saving (as people buy more to keep up with their neighbors) which will increase the interest rate and decrease the equilibrium quantity of saving.