

Chapter 9

ECO 2013

Core Principles

Cost-Benefit Principle - the chapter uses the cost-benefit principle to explain an individual's decision to save and a firm's decision to employ more capital or invest in new technology.

Not-All-Costs-Count-Equally - the chapter applies opportunity cost to look at the cost of investing in new capital.

Equilibrium Principle - the chapter applies supply and demand analysis to the market for saving to find the equilibrium interest rate.

Important Concepts Covered

- Saving and the saving rate
- Wealth
- Assets/liabilities
- Flow versus stock
- Capital gains and losses
- Life-cycle, precautionary, and bequest saving
- National, private, and public saving
- Transfer payments
- Government budget deficits and surpluses
- Crowding out