

Econ. 1A. Quiz 10. (sample)

1. Annie runs a fitness center: On 12/31/2000, she bought an existing business with exercise equipment and a building worth \$800. During 1/1/2001 to 12/31/2001, business was poor and she sold some of her equipment for \$100. [4]

- a. What was Annie's gross investment during 2001? _____.
- b. What was Annie's depreciation during 2001? _____.
- c. What was Annie's net investment (I) during 2001? _____.
- d. What was Annie's K_0 : _____ and K_1 : _____.
where K_0 = capital stock at 12/31/2000, K_1 = capital stock at 12/31/2001.

2. Under what assumptions we can use DLF and SLF curves to describe the loanable funds market? [3]

(1)

(2)

(3).

(4)

(5)

3. a. Please utilize the loanable funds market, i.e., PDLF, DLF & SLF, to examine the impact of government budget deficit, i.e., $T - G < 0$ on real interest rate (r) and quantity of private loanable fund demanded, i.e., private investment (I) **graphically**. Also state **Cause** and **Effect** explicitly. [3]

Cause:

Effect:

b. What is crowding out effect? Show the amount of crowding out in the graph in a. [2]