**Unit 4- Practicing Loanable Funds, Money Market, and AS/AD Graphs**

***Directions***- For each of the following questions graph and label the appropriate Loanable Funds, Money Market and AS/AD graphs with a list of their results. You can use arrows to represent increases and decreases in your explanations $\uparrow \downright $.

Draw Loanable Funds market graphs only for each of the following scenarios. Be sure to give a determinant for your graph shift and to explain what happens to the Supply of Loanable Funds $S\_{LF}$or $D\_{LF}$, the Real Interest Rate $r$, and the Quantity of Loanable Funds $Q\_{LF}$:

1. Investors expect that the economy is headed for expansion.
2. A faster microprocessor is created that can be used in all computers, tablets and smart devices.
3. People are overwhelmingly pessimistic about the economic outlook for the nation.
4. The Fed uses Open Market Operations and sells bonds.
5. A Federal income tax cut raises the income of all Americans.
6. The stock market sees a steady increase in stock prices in all sectors.
7. Millions of Americans expect their future income to fall.
8. The government announces it will back all mortgages through Fannie Mae and Freddie Mac.
9. Government regulations increase in the insurance industry under the Affordable Care Act causing millions of Americans to pay more for health insurance (effectively a tax).
10. Firms expect a higher rate of return from investment.

Draw Money Market graphs and explain what happens to the Supply of Money $S\_{m }$, Nominal Interest Rate$R$, and the Quantity of Money $Q\_{m}$**,** then draw the resulting Loanable Funds graph and explain what happens to the Supply of Loanable Funds $S\_{LF}$or $D\_{LF}$, the Real Interest Rate $r$, and the Quantity of Loanable Funds $Q\_{LF}$, then Draw AS/AD graphs and explain what happens to Aggregate Supply or Aggregate Demand $AS or AD$, Price Level $P\_{L}$, and GDP$Y$***:***

1. The Fed lowers the discount rate.
2. The Fed raises the Reserve Ratio
3. The Fed uses Open Market Operations and buys bonds.
4. The Fed lowers the Federal Funds Rate.
5. The Fed sells securities.

**Determinants for the Loanable Funds Market**

*Demand* $D\_{LF}$*Supply* $S\_{LF}$

1. Phases of the business cycle 1. Disposable Income
2. Technological change 2. Wealth
3. Population growth 3. Expected future income
4. Expectations (intuitions about the market) 4. Default risk

5. The money supply $S\_{m }$