



## PRINCIPLES OF MACROECONOMICS

Economics 105 / Section 4 / Binder

CLASS PROBLEMS (DO NOT HAND IN):

### SAVINGS, INVESTMENT and the FINANCIAL SYSTEM

1. Define the following terms:

Public savings \_\_\_\_\_

Private savings \_\_\_\_\_

National savings \_\_\_\_\_

Investment \_\_\_\_\_

Budget deficit \_\_\_\_\_

Budget surplus \_\_\_\_\_

2. Explain the difference between saving and investment as defined by a macroeconomist. Which of the following situations represent investment? Saving? Explain.

- a. Your family takes out a mortgage and buys a new house.
- b. You use your \$200 paycheck to buy stock in AT&T.
- c. Your roommate earns \$100 and deposits it in her account at a bank.
- d. You borrow \$1000 from a bank to buy a new care to use in your pizza delivery business.

3. Suppose GDP is \$8 trillion, taxes are \$1.5 trillion, private saving is \$0.5 trillion, and public saving is \$0.2 trillion. Assuming this economy is closed, calculate consumption, government spending, national saving and investment.