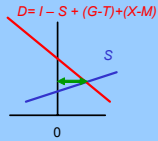
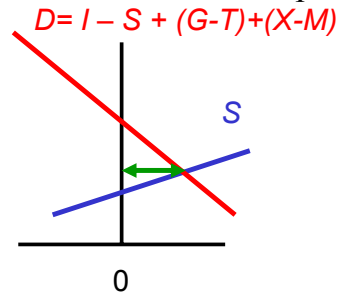


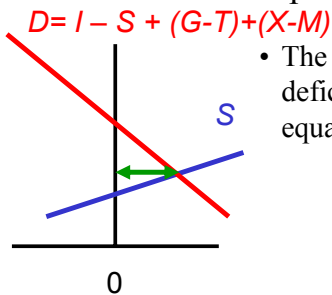
## Government and the Demand for Loans



## Our Graph

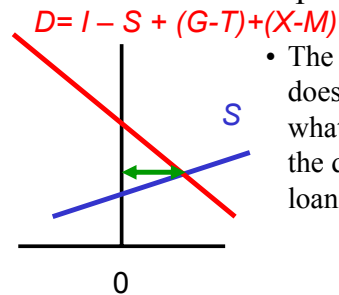


## Our Graph



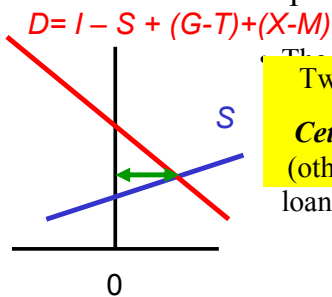
- The government deficit enters our equation.

## Our Graph



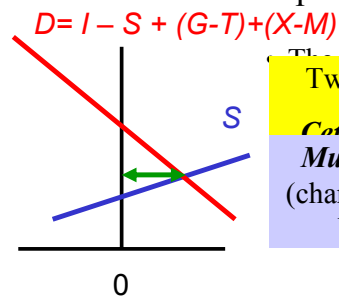
- The government does something: what happens to the demand for loans?

## Our Graph



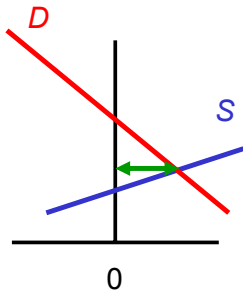
- Two key phrases:  
***Ceteribus Paribus***  
 (other things equal)  
 loans?

## Our Graph



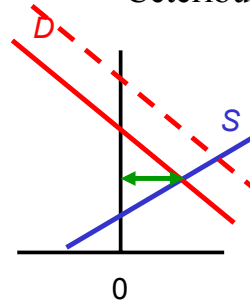
- Two key phrases:  
***Ceteribus Paribus***  
***Mutatis Mutandis***  
 (changing what must be changed)

## A \$300 Gift



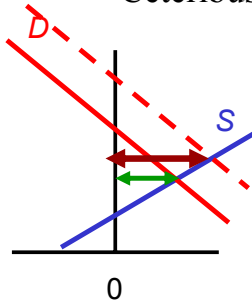
- Suppose the government gives everyone a one-time tax rebate this year of \$300. What happens?

## Ceteribus Paribus



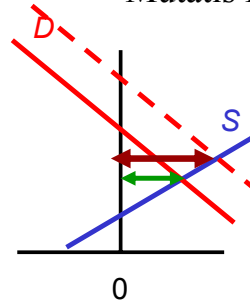
- Suppose the government gives everyone a one-time tax rebate this year of \$300. The government must borrow \$300N so the demand for loans curve shifts up and to the right. What happens?

## Ceteribus Paribus



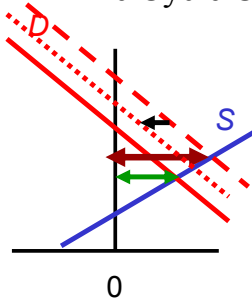
- Suppose the government gives everyone a one-time tax rebate this year of \$300. The government must borrow \$300N so the demand for loans curve shifts up and to the right. Interest rates rise. The balance on current account worsens and investment falls.

## Mutatis Mutandis



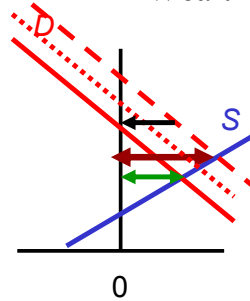
- What do consumers do with the \$300?

## Life Cycle Consumption



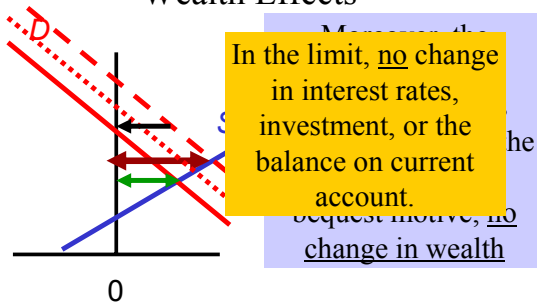
- What do consumers do with the \$300? Even if consumers thought the \$300 was a gift, they would save most of it, reducing the demand for loans

## Wealth Effects

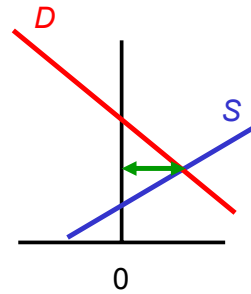


- Moreover, the government borrowing means additional taxes in the future. With a bequest motive, no change in wealth

## Wealth Effects

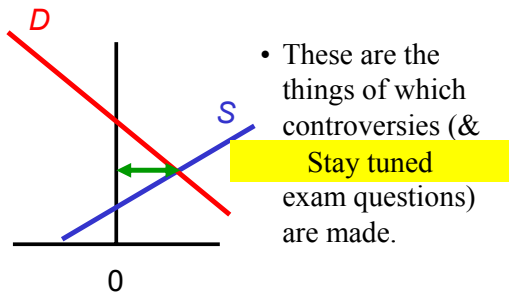


## Where This Leaves Us



- These are the things of which controversies (& homework & exam questions) are made.

## Where This Leaves Us



- These are the things of which controversies (& exam questions) are made.

End

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