

Learning Objectives

Chapter 26

In this chapter you will

- Learn about the role of the financial system
- Learn about some of the important financial institutions in the economy
- Learn about the use of credit default swaps and collateralised debt obligations (CDOs)
- Learn about saving and investment in the national accounts
- Consider how the financial system is related to key macroeconomic variables
- Develop a model of the supply and demand for loanable funds in financial markets
- Use the loanable funds model to analyse various government policies
- Consider how government budget deficits affect the economy

You should be able to

- Describe the role of the financial system
- List and describe four important types of financial institutions
- Describe the relationship between national saving, government deficits, and investment
- Explain the role of credit default swaps in the bond market and how CDOs help institutions expand lending
- Explain the slope of the supply and demand for loanable funds
- Shift supply and demand curves in a model of the loanable funds market in response to a change in taxes on interest or investment
- Shift supply and demand curves in a model of the loanable funds market in response to a change in the government's budget deficit