Short Answer Questions
Chapter 32.

1. Describe the main factors that make up the market for loanable funds.

2. Explain the meaning of the term ‘real exchange rate’ and outline how it is determined.

3. Explain the effect on net capital outflow of an economy which has a lower domestic real interest rate

4. Explain the relationship between the market for loanable funds and the market for foreign currency exchange. You should use appropriate diagrams to illustrate your answer.

5. Many European governments are taking steps to reduce the size of their budget deficits. Discuss the effect of these reductions on the market for loanable funds. Use appropriate diagrams to illustrate your answer.

6. The member states of the European Union decide to increase the common external tariff. Consider the effect of this increase on the market for loanable funds and the real exchange rate.

7. In the latter part of 2010 and into 2011, a debate arose about the manipulation of currencies by some countries. It was argued that some countries were deliberately engineering a weakening of their own currency in relation to others. Analyse some of the possible effects of such a policy.

8. The early part of 2011 saw political instability in some countries in the Middle East including Tunisia, Egypt, Jordan and the Yemen. Analyse the possible effects on the market for loanable funds and the real exchange rate in those countries as a result of this political instability.

9. There is a sharp decline in the savings ratio in Switzerland. Consider the effect of this on the market for loanable funds and the real exchange rate of the country.

10. Economists mostly advocate free trade policies as a way of increasing global welfare. Analyse the effect of a removal of trade barriers to the market for loanable funds and the real exchange rate of a less developed country such as Mali or Gambia.

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