1. Suppose Bryan has no current financial wealth but anticipates earning $4500 during the current period and $6600 during the future. He can borrow or lend at a real interest rate of 10%.
   a) Is it possible for Ed to spend exactly $6000 in each period? Explain.
   b) Is it possible for Ed to spend exactly $5500 in each period? Explain.
   c) Answer the question in both parts (a) and (b) assuming Ed earns $6500 in the first period and $4400 in the future period.

2. Congratulations, you’ve won $11,000,000 in the lottery. You are given the option of receiving the entire amount next year, or $10,000,000 this year. You can borrow and lend at 10%. Which option will you choose? Explain.

3. What does economic theory predict will happen to desired aggregate consumption, saving and investment (as a proportion of current income) if the following occur? Use a graph to illustrate your answer.
   a) Improvements in technology increase the expected future profits of new factories.
   b) Stock prices rise dramatically.
   c) The real interest rate rises.
   d) Scientists predict that the earth will be destroyed by a comet in five years.

4. Imagine a hypothetical economy that does not trade with other countries and has no government sector. What will be the likely affect of the following on the real interest rate and the share of spending on consumption? Explain your prediction.
   a) Because of uncertain times, households increase their saving rate.
   b) Firms become pessimistic about future economic activity.

5. According to the circular flow model, in an economy with no government sector and no interaction with the rest of the world, investment must equal saving. Yet, our model of the market for borrowing and lending works by assuming that, if the real interest rate is lower than its “equilibrium” value, there is a shortage of loanable funds; i.e., investment exceeds saving. Explain this paradox.

6. You want to buy a car that costs $10,000. You have $10,000 in the bank earning 5% interest. You can pay for the car either by using the money in your bank account, or by borrowing the cost of the car from the bank at 5% interest. Use the logic in chapter 11 of Landsburg to explain why you should be indifferent between these two options for financing your automobile purchase.