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 an annual interest rate of 10%. Which option will you choose? Explain.

3. 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. Explain why you should be indifferent between these two options for financing your automobile purchase.

4. For a closed economy (one that doesn’t trade goods or assets with the rest of the world), predict the effect on the real interest rate, domestic investment, private saving, national saving, and consumption of the following external shocks (holding all other things constant):
   a) an increase in overall stock prices
   b) a decrease in the price of capital goods
   c) an increase in military spending in Iraq
   d) a federal tax rebate to citizens under the conventional view and the Ricardian view.

5. Suppose you observe that, for Argentina, interest rates fall, domestic investment rises, and their trade deficit rises with the rest of the world. Which of the following events could explain your observation, and why?
   a) A decrease in the marginal product of capital goods in Argentina.
   b) A decrease in future income in Argentina.
   c) A reduction in foreigners’ perceived political risk in Argentina

6. Suppose that you observe that US interest rates fall, US domestic investment rises, and the US trade deficit falls. Which of the following are potential explanations, and why?
   a) A decrease in capital goods prices in the US.
   b) An increase in current US income.
   c) A decrease in US federal government spending.