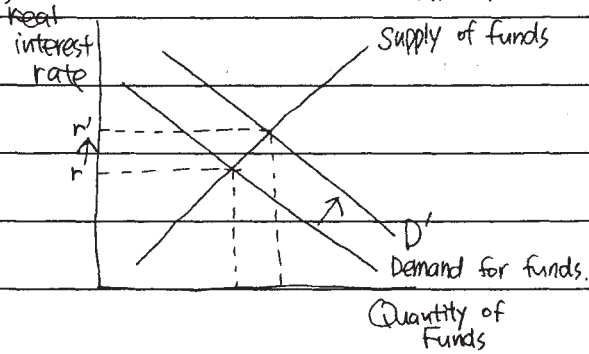


(a) Loanable funds market

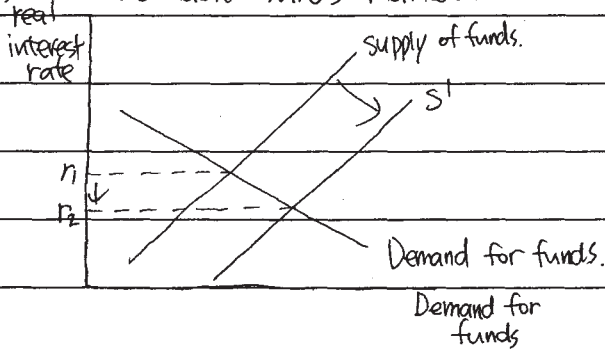


~~The bus~~

The businesses are more willing to ~~buy~~ increase their spending ~~on~~ for machinery because they are granted a tax credit on spending for machinery.

Therefore, the demand for funds will increase. As a result, real interest rate will increase.

(b) Loanable funds market.



~~People are~~

People will be more willing to ~~save~~ save their money in banks because the tax rate on interest income from household savings is lowered. That means the ~~supply~~ supply in loanable

funds market will increase. As a result, the real interest rate will decrease.

(c) ~~The lowered real interest rate will~~ Because of the lowered real interest rate, the investment will increase. The increase in investment will cause increase in capital ~~stocks~~ stocks in the long run. As a result, the country's production possibilities curve will shift out.