



Macroeconomics, Winterterm 2012/2013

Task Assignment Group 4

This assignment requires you to (i) hand in an Excel file to the teaching assistant in which you provide all numerical results and graphs on separate spreadsheets *before* the presentation in class (dates noted on course schedule provided on the syllabus on the website www.marcelbluhm.com), and, (ii), to set up a presentation (preferably in .ppt format) for class. The International Monetary Fund's World Economic Outlook Database (<http://www.imf.org>) as well as the Penn World Tables (<http://pwt.econ.upenn.edu/>) are valuable data sources.

Use the loanable funds model from chapter 3 in which the interest rate adjusts to equilibrate the supply of loanable funds (upward sloping) and the demand for loanable (downward sloping) funds to investigate the relation between interest rates and investment:

- 1) Suppose the demand for loanable funds was stable but the supply fluctuated from year to year. What might cause these fluctuations in supply? In this case, what correlation between investment and interest rates would you find?
- 2) Suppose the supply of loanable funds was stable but the demand fluctuated from year to year. What might cause these fluctuations in demand? In this case, what correlation between investment and interest rates would you find now?
- 3) Suppose that both supply and demand in this market fluctuated over time. Why is it hard to find a stable relationship between Investment and interest rates over time?
- 4) Which of the above three cases seems most empirically realistic to you?
- 5) Download data on investment and interest rates for the U.S. (take the effective annual federal funds rate which can be downloaded from the Federal Reserve under <http://www.federalreserve.gov>) from 1955 to 2010. Make a scatterplot of the two variables and after a visual inspection of the scatterplot tell which of the above mentioned cases, 1-3, seems most realistic from your empirical result.
- 6) Prepare presentation slides for class (for a presentation of 10 minutes) in which you outline your assignment, the concepts you use as well as your interpretation results from exercises 1-5 above. Make sure to also give the data sources you use.