

Loanable Funds Market

Class Activity

GAME DESCRIPTION

The loanable funds market is hypothetical and represents many different financial markets. Some of these include the stock market and the bond market. To simplify things, however, economists assume there is just one market that brings savers and investors together. This market is called the loanable funds market. In this simulation, we will replicate how this market works by dividing the class into savers and investors. Both savers (those supplying money) and investors (those demanding money) are trying to maximize their profits. Prizes will be given out for anyone making at least a 10% profit.

PROCEDURE

1) Pre-Game Instructions

- A) The class will be divided into two groups: savers and investors. Each group is looking either to save \$10,000 or take a loan out for \$10,000.
- B) Each saver and investor will be given one Saver Card or Investor Card at a time with an interest rate written on it. **DO NOT REVEAL THE INTEREST RATE.**
- C) If you are a **saver**, you want an interest rate that is **more** than the one listed on the card.
- D) If you are an **investor**, you want an interest rate that is **less** than the one listed on the card.

2) Playing Instructions

- A) **PLAY THE GAME**
 - i) Negotiate with other students to get the best interest rate possible. Savers negotiate with investors and investors negotiate with savers.
 - ii) Once you have made a transaction, return your card to the teacher and pick up a new one.
 - iii) The investor reports the interest rate in the transaction to the teacher.
 - iv) Make as many transactions as you can during each round. There are two five-minute rounds.
- B) **RECORD DATA**
 - i) Whenever you receive a card, immediately write down the interest rate in the "Interest Rate on Card" column in the Your Transactions Table.
 - ii) Round transactions to the nearest whole number.
 - iii) Record transactions in the "Interest Rate in Transaction" column and compute your gain or loss. If it was a gain, put the number in the "Gain" column, and record losses in the "Loss" column.

3) After-Round Instructions

- A) If you were unable to make a transaction during the first round, you may take a new card. Otherwise, keep the card from the first round.
- B) For Round 2, Government Cards will be mixed into the Investor Card deck. Since the government also wants a loan, these cards work just like the Investor Cards.

4) After-Game Instructions

- A) Add together all of your Gains and Losses for both rounds to calculate your "Total."
- B) Copy the data from the board onto the Class Data Table. Remember, the columns for "Total Investor Demand," "Investor Plus Government Demand," and "Total Supply" are cumulative totals.
- C) Plot the Class Data on the provided graph.
 - i) Write in the quantity values on the x-axis.
 - ii) Label "Total Investor Demand" as D_1 .
 - iii) Label "Investor Plus Government Demand" as D_2 .
 - iv) Label "Total Supply" as S .

5) Questions

- A) What is the equilibrium interest rate and quantity without government?
- B) What is the equilibrium interest rate and quantity with government?
- C) By how much did government involvement raise the interest rate in the loanable funds market?

RECORD DATA

YOUR TRANSACTIONS				CLASS DATA					
Trans- action	Interest Rate on Card	Interest Rate in Transaction	Amount of Gain or Loss	Interest Rate	Number of Investor Transactions	Number of Government Transactions	Total Investor Demand	Investor Plus Government Demand	Total Supply
1	%	%	%	1%					
2	%	%	%	2%					
3	%	%	%	3%					
4	%	%	%	4%					
5	%	%	%	5%					
6	%	%	%	6%					
7	%	%	%	7%					
8	%	%	%	8%					
9	%	%	%	9%					
10	%	%	%	10%					
11	%	%	%	11%					
Total			%	12%					

