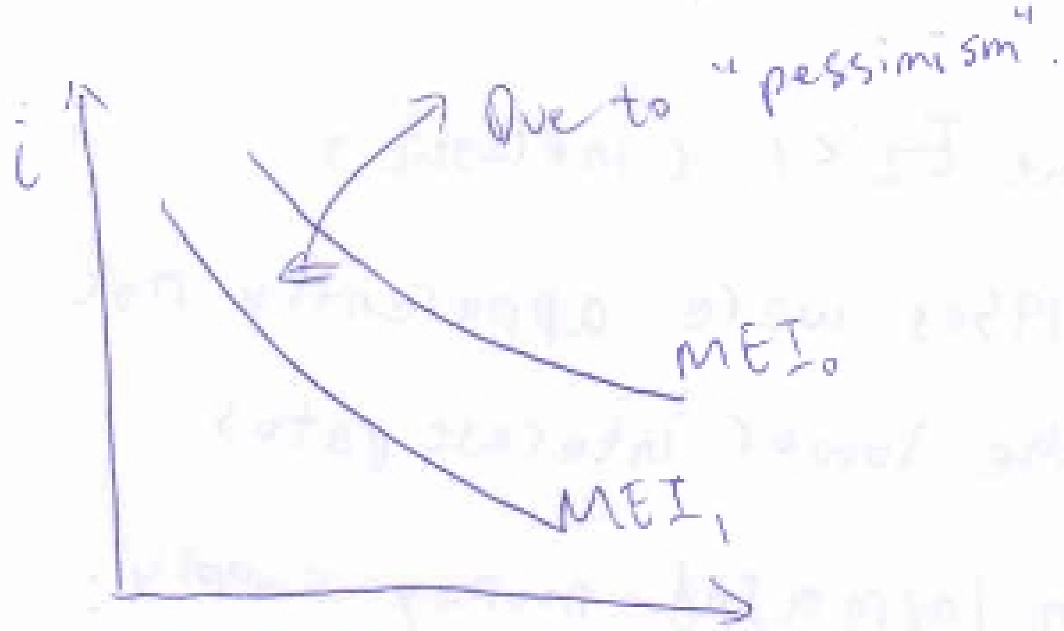
Quiz V.

1. Investors would compare ρ with i because ρ represents investment returns (or benefits) while i represents the costs of investment; (if benefits outweigh costs, then invest; if not, don't).

2.

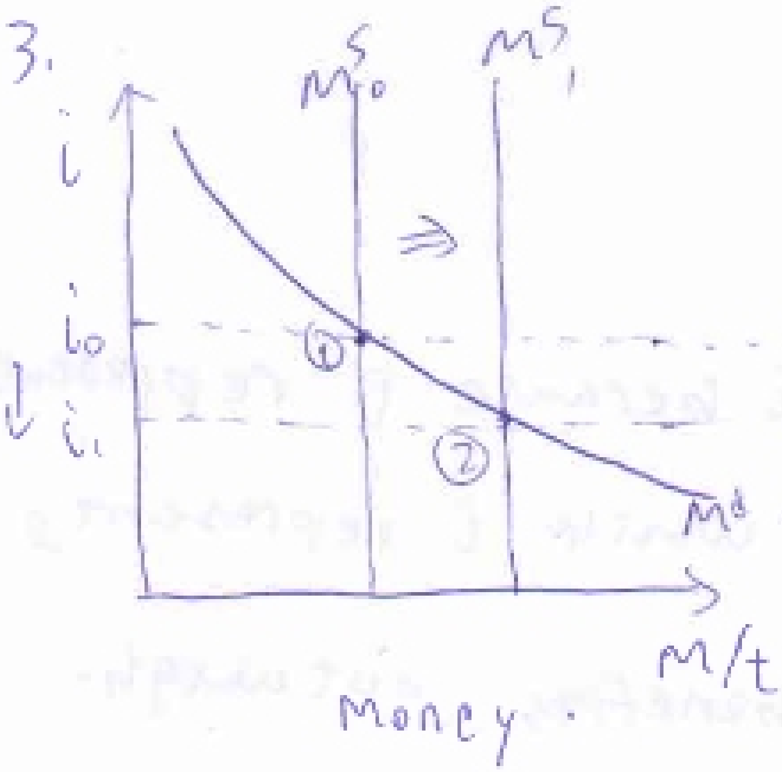


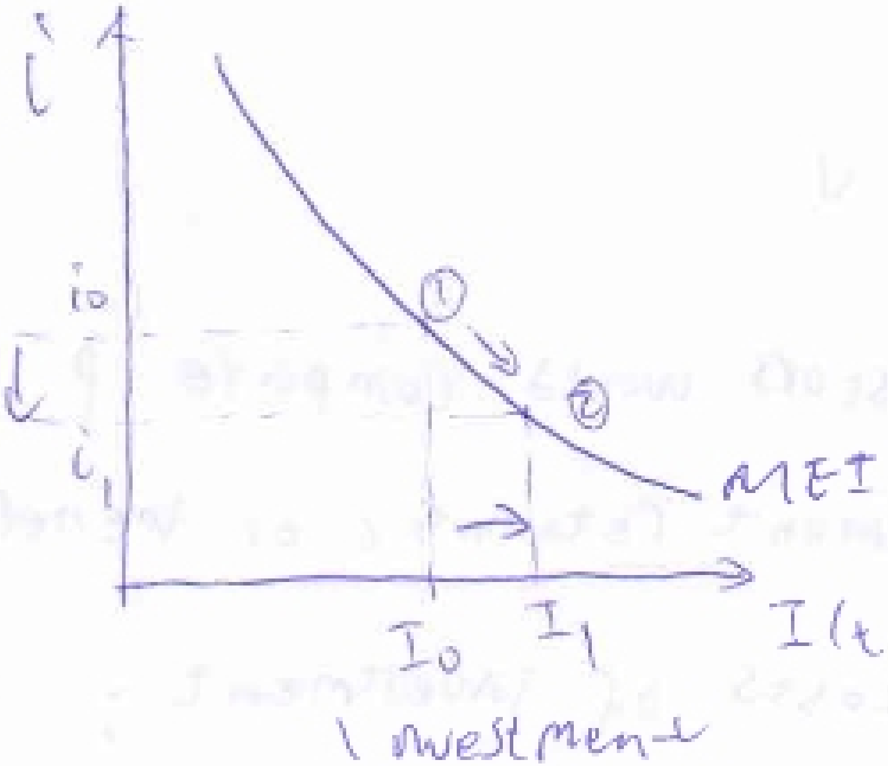
1 point → correct graph.

Any given interest rate investment spending will be lower because investors are expecting lower future (business or investment) income

(technically, this would amount to a lower expected return for any given i ~~but~~).

3.





no explanation needed.

4. these events suggest that $E_I < 1$ (inelastic).

investors in the early 1930s were apparently not very responsive to the lower interest rates brought about by an increased money supply.