University of Ottawa
ECO1102 D
Midterm # 1 (February 10, 2010)

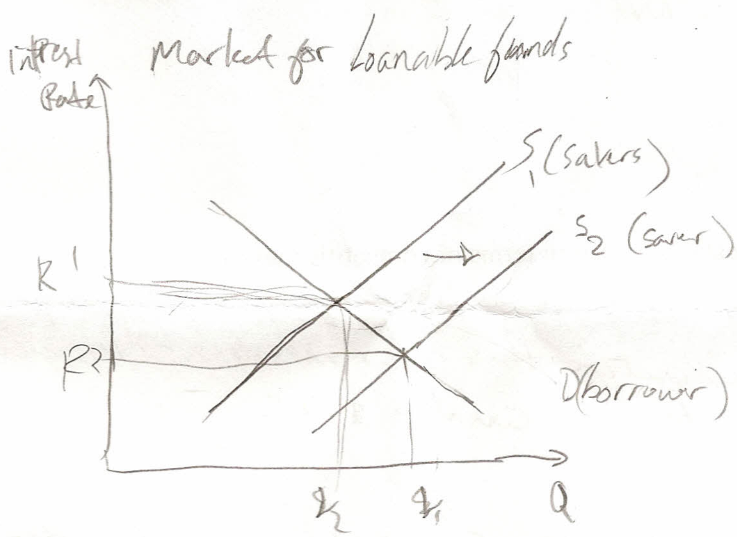
Name Kevin Tang
Student number 5585638

44. The Global Saving Glut and Its Consequences (9 points)

The world is experiencing an unprecedented glut of savings, driving down real interest rates. It is a good time to borrow rather than lend. …Several developing countries are running large trade balance surpluses…China has the biggest surplus of $1.2 trillion, but other developing countries put together have accumulated almost as much. …Rapid growth leads to high saving rates. In India, GDP growth has lifted the saving rate from 23% a decade ago to 33% today. China's saving rate is a dizzy 55%. Not even the investment boom in Asia can absorb these huge savings, which are therefore put into U.S. bonds. When a poor country buys U.S. bonds, it is in effect lending to the United States.

Cato Institute, June 8, 2007

a. Graphically illustrate and explain the impact of the "unprecedented glut of savings" on the real interest rate and the quantity of loanable funds in the U.S. (according to this article).



1. there is an increase in saving then supply increase (shift right) & intrest rate ↓
2. the decrease in intrest cause more borrowers to borrow ~~money~~.

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b. How to the high saving rates in China and India impact investment in the United States? How does this investment influence long-run productivity and standard of living in the United States?

Invest ment from foreign Country → more money → More factor of production (i.e. human Capital, Physical Capital, technology) → more jobs, → more income → higher standard of living in the U.S.

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