Increasing supply of savings will shift right if national saving, private and/or public saving is higher relative price for the firm's output.

Changes in factors other than the real interest rate that affect the supply or demand for savings will also shift the demand curve. A country can invest only those resources that its savers make available.

Supply of saving is shown but upward.

Investment then uses the funds raised to buy a wide variety of financial assets.

Diversification: the practice of spreading one's wealth over a variety of different financial assets. Hence, to be productive, the bond and stock markets to direct funds to the uses that appear most likely.

The bond price is the present value of the bond's future payments, or:

\[ P = \sum_{t=1}^{T} \frac{C_t}{(1+r)^t} + \frac{F}{(1+r)^T} \]

where:
- \( P \) is the bond price,
- \( C_t \) is the coupon payment at time \( t \),
- \( F \) is the principal amount, and
- \( r \) is the real interest rate.

An increase in the future dividend or in the future expected stock price raises the stock price today.

An increase in the stock lowers today's stock price.

Interest paid on bonds issued by local governments (municipal bonds) is exempt from federal income tax.

Credit risk is the risk that the borrower will go bankrupt and thus not repay the loan.

Coupon rate: the interest rate promised when a bond is issued.

Bond: a legal promise to repay a debt, usually including both the principal amount and interest payments.

The demand for savings \( I \) will shift to the right if there is a decline in the price of saving.

The stock market lower today's stock price.

An increase in the future dividend or in the future expected stock price raises the stock price today.

Bond prices and interest rates are inversely related. The bond market lowers today's bond price.

A borrower that is viewed as risky will have to pay a higher coupon rate to attract lenders.

A longer-term loan (30-year bond) will have a lower coupon rate than a shorter-term loan (1-year bond).

Credit risk is the risk that the borrower will go bankrupt and thus not repay the loan.

Maturation date: the date at which the principal of a bond will be repaid.

Principal amount: the amount originally lent.

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