- Willingness of borrowing money depends on the amount of returns expected (of current investment)
    - Expectations of future business conditions
    - Technology (how easy it is to build a new factory)
    - Business taxes (investment tax credit) fiscal policy
    - Investment tax credit is when a firm builds something and it is tax deductible, government increases tax credit and firms are more willing to invest in those projects
- Investment spending is more volatile than consumer spending
    - Firms will postpone spending if they need to
    - Consumers continue buying products despite the economy (continue to pay for health care and tooth paste even if they lost their job)

    America has a consumer-oriented economy

*Which of the following is a correct statement? All else equal:
a) a decrease in the real rate of interest will reduce the level of investment
b) a decrease in the real rate of interest will increase the level of investment
c) an increase in business taxes will increase the level of investment
d) an increase in the level of current disposable income will decrease the level of investment

Government Spending

Government spending increases

- Aggregate demand increases (as long as interest rates and tax rates do not change)
    - More transportation projects
- Government spending decreases --- Aggregate demand decreases
    - During recession government replaces consumer spending to keep economy going
    - Less military spending
    - Lower taxes and increased spending, this increases aggregate demand

Net Export Spending

- National income abroad
    - How other economies perform affects how much money they spend and buy from us
    - If economy is expanding they will purchase more from us
    - All economies are connected if one lowers spending it hurts others
- Exchange rates
    - Rate of U.S. dollar compared to Euro
        - Exchange rate of the dollar fluctuates day to day
        - Dollar depreciation: takes more dollars to buy one Euro, our goods are more expensive to others, buy less from us aggregate demand rises
        - Dollar appreciation: aggregate demand lowers