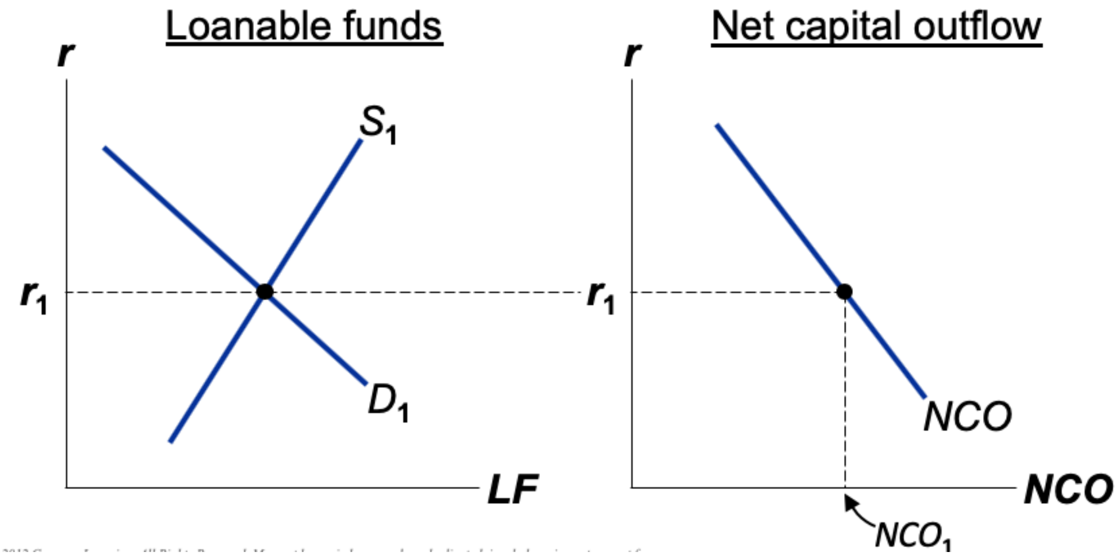
12^{th} week: In-class Learning Activity

1. Budget deficits and capital flows
Suppose the government runs a budget deficit (previously, the budget was balanced). Use the appropriate diagrams to determine the effects on the real interest rate and net capital outflow.



2. **Investment incentives** Suppose the government provides new tax incentives to encourage investment. Use the appropriate diagrams to determine how this policy would affect: the real interest rate, net capital outflow, the real exchange rate, and net exports