1. Annie runs a fitness center: On 12/31/2000, she bought an existing business with exercise equipment and a building worth $800. During 1/1/2001 to 12/31/2001, business was poor and she sold some of her equipment for $100. [4]

a. What was Annie’s gross investment during 2001? ____________________.

b. What was Annie’s depreciation during 2001? ______________________.

c. What was Annie’s net investment (I) during 2001? ____________________.

d. What was Annie’s \( K_0 \): __________ and \( K_1 \): ____________________.
   where \( K_0 = \text{capital stock at 12/31/2000} \), \( K_1 = \text{capital stock at 12/31/2001} \).

2. Under what assumptions we can use DLF and SLF curves to describe the loanable funds market? [3]

(1)

(2)

(3)

(4)

(5)

3. a. Please utilize the loanable funds market, i.e., PDLF, DLF & SLF, to examine the impact of government budget deficit, i.e., \( T - G < 0 \) on real interest rate (r) and quantity of private loanable fund demanded, i.e., private investment (I) graphically. Also state Cause and Effect explicitly. [3]

   Cause:

   Effect:

b. What is crowding out effect? Show the amount of crowding out in the graph in a. [2]