

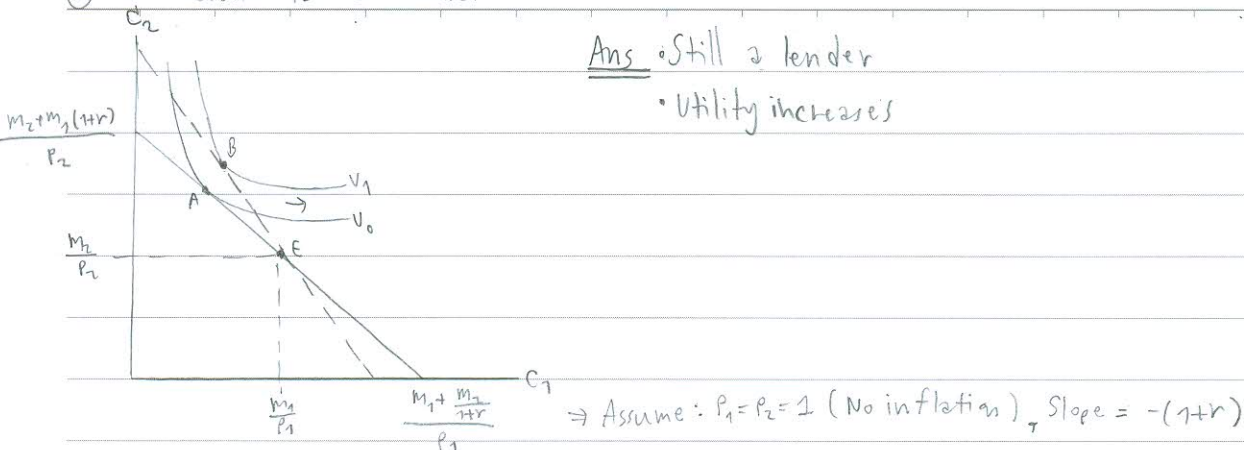
EE 311 HW3 Solutions

SUBJECT: _____ NO: _____ DATE: _____

When interest rate increases: $\Rightarrow (1+r)$ increases

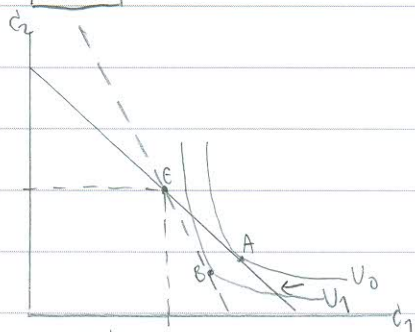
① If he/she is a lender

Ans • Still a lender
• Utility increases



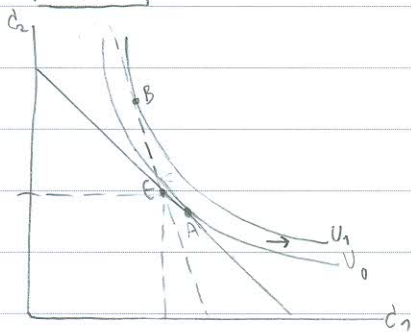
② If he/she is a borrower

Case 1



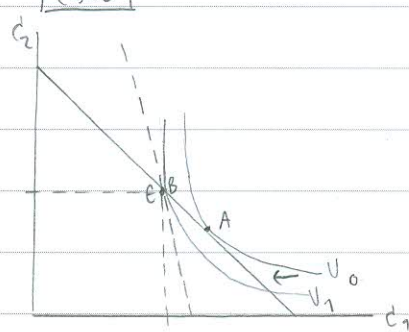
Ans • Still a borrower
• Utility decreases

Case 2



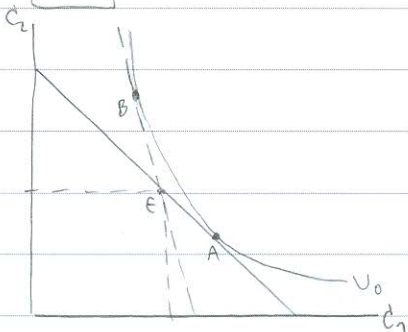
Ans • Becomes a lender
• Utility increases

Case 3



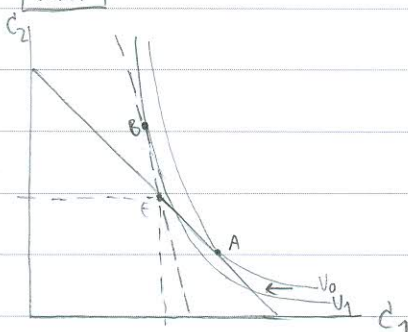
Ans • Becomes neither a borrower nor lender
• Utility decreases

Case 4



Ans • Becomes a lender
• Same utility

Case 5



Ans • Becomes a lender
• Utility decreases