Four scenarios for examination:

(1.) Outward shift in the demand for capital occurs in an economic boom when increased construction of plants, buildings, and other capital-intensive business activities requires huge outlays of investment. In this situation, interest rates tend to rise along with capital invested.

(2.) Decreased shift in the demand for capital occurs in an economic downturn or recession. The economy stops growing, the real estate market collapses, and new building permits drop. The result? Lower interest rates and less capital invested.

(3.) Outward shift in supply of capital occurs in situations where new sources of capital enter the market, either from domestic savings (people desire to save more) or foreign investment sources. The greater supply of capital requires banks and other intermediaries to reduce interest rates and encourage more borrowing. Net result: lower interest rates and more capital invested.

(4.) Inward shift in the supply of capital occurs when people decide to cut back on their savings or foreigners withdraw investment capital. With fewer loanable funds available, banks and other financial institutions must ration the funds, causing interest rates to climb and fewer investment projects. Net result: higher interest rates, less capital invested.