1. A new internet company wanting to borrow funds issues a bond that pays $110 next year and can be redeemed for $1,210 at the end of the second year. Ignoring the possibility of the company defaulting, how much will this bond sell for if the annual interest rate is 0.0%?
   a. 0  b. $1000  c. $1,100  d. $1,320

2. A new internet company wanting to borrow funds issues a bond that pays $110 next year and can be redeemed for $1,210 at the end of the second year. Ignoring the possibility of the company defaulting, how much will this bond sell for if the annual interest rate is 10.0%?
   a. 0  b. $1000  c. $1,100  d. $1,320

Answer questions 3 – 5 based on the following information. A firm can buy a new machine for $1,000 that will increase its profits by 500 after 1 year and by 600 after two years (at the end of 2 years the machine breaks). The interest rate is 10%.

3. If PDV of the future profit stream is about:
   a. $500  b. $600  c. $990  d. $1000  e. $1100

4. The firm should _____ the machine since the initial cost _____ the PDV of the profit stream.
   a. not buy; exceeds  b. not buy; is less than  c. buy; exceeds  d. buy; is less than

5. If the interest rate falls to zero, the PDV of the future profit stream is about:
   a. $500  b. $600  c. $990  d. $1000  e. $1100

6. Now, the firm should _____ the machine since the initial cost _____ the PDV of the profit stream.
   a. not buy; exceeds  b. not buy; is less than  c. buy; exceeds  d. buy; is less than

7. Investment spending
   a. cannot be stimulated by decreasing the interest rate.  b. is often the cause of business fluctuations in the United States.
   c. is a remarkably stable function of real GDP.  d. is positively related to the interest rate

8. In the late 1990s, U.S. businesses invested large sums of money in computer related capital equipment. According to multiplier analysis, what will happen to GDP as a result?
   a. GDP will increase by a larger amount than the sums invested.
   b. GDP will increase by a smaller amount than the sums invested.
   c. GDP will increase by an amount equal to the sums invested.
   d. The sums invested must be subtracted from GDP.

9. The numerical value of the multiplier is
   a. indeterminate.  b. greater than one.  c. equal to one.  d. less than one.

10. The reason for the multiplier effect is that
    a. businesses make decisions about investment projects based on anticipated profits.
    b. one person’s additional expenditure creates a new source of income for another person.
    c. changes in government spending typically deepen recessions and exacerbate inflationary conditions in the economy.
    d. additional spending lowers the rate of interest and leads to further borrowing and spending.

11. If investment increases by 100 and equilibrium GDP rises by 500, then the multiplier is:
    a. 1/5  b. 5  c. 100  d. 500

12. The economic impact of a change in spending, working through the multiplier, takes effect
    a. immediately.  b. very quickly, with a small number of rounds of spending.
    c. after a very long period of time.  d. after multiple rounds of spending occur.
13. If businesses spend an additional $150 billion for investment projects in 1999, what will be the impact on national income (Y) if the multiplier is 3?
   a. Y will increase by $50 billion.  
   b. Y will increase by $150 billion.  
   c. Y will increase by $300 billion.  
   d. Y will increase by $450 billion.

14. The oversimplified formula for the multiplier is ____________.
   a. 1/(1 – MPS)  
   b. 1/(1 – MPC)  
   c. (1 – MPC)/(1 – MPS)  
   d. (1 – MPC)/1

15. A major internet service provider decides to spend $50 million to purchase new server equipment. If the marginal propensity to consume is 0.8, the eventual change in GDP will be
   a. $40 million.  
   b. $50 million.  
   c. $90 million.  
   d. $250 million.  
   e. $850 million.

Answer questions 16 – 19 based on the following information:

\[ C = 150 + 3/4Y \]  
\[ I = 100 \]  
\[ G = 100 \]  
\[ NX = -50 \]

16. The equilibrium level of income in the economy represented by the above equations is
   a. 800.  
   b. 1,200.  
   c. 1,600.  
   d. 2,000.  
   e. 2,400.

17. The simple multiplier in the economy represented by the above equations is
   a. 4.  
   b. 3.  
   c. 2.  
   d. 1 3/4.  
   e. 3/4.

18. If government spending rises by 100, the equilibrium level of GDP is:
   a. 800.  
   b. 1,200.  
   c. 1,600.  
   d. 2,000.  
   e. 2,400.

19. The change in income divided by initial change in spending is:
   a. 4.  
   b. 3.  
   c. 2.  
   d. 1 3/4.  
   e. 3/4.

20. During the late 1990s the stock market increased in value by approximately 18 percent annually. The most likely result of this development is a(n)
   a. autonomous increase in consumption.  
   b. autonomous decrease in consumption.  
   c. induced increase in consumption.  
   d. induced decrease in consumption.

21. Economic booms tend to be transmitted across national borders because
   a. as other nations experience a downturn in their economies, the United States, must experience an upturn in its economy.  
   b. a boom abroad gives foreigners rising incomes, which means they will buy more American goods and services.  
   c. the United States will import more foreign goods in a recession.  
   d. a boom in the United States means U.S. net exports will increase.

22. How will an increase in net exports affect the aggregate demand curve?
   a. a shift outward of the AD curve from a change in spending  
   b. a shift inward of the AD curve from a change in spending  
   c. a movement upward along the AD curve from a change in spending  
   d. a movement downward along the AD curve from a change in income

23. How will an increase in interest rates affect the aggregate demand curve?
   a. a shift outward of the AD curve from a change in spending  
   b. a shift inward of the AD curve from a change in spending  
   c. a movement upward along the AD curve from a change in spending  
   d. a movement downward along the AD curve from a change in income

24. An autonomous decrease in spending leads to a horizontal shift of the aggregate demand curve by an amount equal to
   a. the decrease in spending times the simple multiplier.  
   b. the decrease in spending.  
   c. the decrease in spending times the marginal propensity to save.  
   d. none of the others is correct.

25. The U.S. aggregate demand curve moves horizontally to the left
a. if government cuts spending to balance the budget.  
b. if the consumption function shifts upward.  
c. if foreigners buy more U.S. goods.  
d. if businesses increase their investment spending.  

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<th>Table 10-1</th>
<th>Income</th>
<th>Consumption</th>
<th>Saving</th>
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<tr>
<td>700</td>
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<td>90</td>
<td></td>
</tr>
</tbody>
</table>

26. In Table 10-1, what is the MPC?
   a. 1.00  b. .90  c. .80  d. .70  e. .60

27. In Table 10-1, what is the multiplier?
   a. 8    b. 9    c. 10    d. 15    e. 20

28. In Table 10-1, what is the slope of the consumption function?
   a. .60   b. .70   c. .80   d. .90   e. .95