1. James, John and Henry are all Americans. Identify the immediate effect of each of the following circumstances on U.S. GDP and its components.
   a. James receives a Social Security check.
   b. John buys an Italian sports car.
   c. Henry buys domestically produced tools for his construction company.

2. A French citizen buys an automobile produced in Taiwan by a Japanese auto company.
   a. How would this event affect Taiwan’s net exports, GDP, and GNP? Explain why.
   b. How would this event affect Japan’s net exports, GDP, and GNP? Explain why.
   c. How would this event affect France’s net exports, GDP and GNP? Explain why.

3. A wind farm in Iowa of USA buys a large turbine generator from a Swedish-owned factory located in Connecticut of USA that uses local workers. Discuss how this event would affect the U.S. GDP, U.S. GNP, and the components of GDP.

4. Suppose the government borrows $20 billion more next year than this year.
   a. Use a supply-and-demand diagram to analyze this policy.
   b. Does the interest rate rise or fall?
   c. What happens to private investment? To private saving? To public saving? To national saving? Compare the size of the changes to the $20 billion of extra government borrowing.
   d. How does the elasticity of supply of loanable funds affect the size of these changes?
   e. How does the elasticity of demand of loanable funds affect the size of these changes?

5. Suppose a presidential candidate promises to increase the government budget surplus and claims that doing so will stop U.S. citizens from investing in foreign companies and increase the value of the dollar. Evaluate this promise.

6. Explain how each of the following changes the money supply, the value of money, and the price level.
a. the Fed buys bonds.
b. the Fed raises the discount rate.
c. the Fed raises the reserve requirement.

7. Bank of Springfield

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
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<tbody>
<tr>
<td>Reserves</td>
<td>Deposits</td>
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<td>$19,200</td>
<td>$240,000</td>
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<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
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</table>

a. What is the reserve requirement if the Bank of Springfield has lent out all the money it can given its level of deposits?
b. What is the value of the money multiplier, assuming the Bank of Springfield and all other banks have the same reserve ratio?
c. What quantity of excess reserves does the Bank of Springfield now hold if the Fed requires a reserve ratio of 6 percent?