

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (10 points) Why do we pay the VMP_L ?
- 2) (20 points) What is the slope of the isoquant? How do you know that?
- 3) (30 points) Illustrate an increase in the rental rate of capital on the isoquant/isocost diagram. Explain why the curve(s) moved as drawn.
- 4) (40 points) Draw an isoquant/isocost diagram with two different isoquants and two different isocost lines. For both, assume that the rental rate on capital is \$10/unit and the wage rate is \$5/hr. Put a scale on both axes and calculate the total cost of both quantities. Use that information to draw two points on the long-run total cost curve. Explain how you got the total cost for each point.