Wilf Csaplar Jr.   Economics 302   Homework #3   Due 02/09

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (20 points) Explain the equation $MPK^f = \dfrac{(r+d)p_k}{1-\tau}$. Make sure you explain all four of the variable on the right-hand side of the equation.

2) (30 points each) Illustrate the following events on the MPK^f/uc diagram and the S/I diagram. Explain why the curve(s) moved as drawn. State what happens to the capital stock, the interest rate, and the price of capital.
A) The marginal tax on profits increases.
B) Technology improves.

3) (20 points) If the depreciation rate increases, it will have two effects upon investment. What are they? Why will it have those two effects?