Wilf Csaplar Jr.   Economics 302   Homework #3   Due 02/12

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points.

1) (20 points) Explain $MPK^f = \dfrac{(r+d)p_K}{1-\tau}$.

2) (10 points) What is wrong with equation 4.2 on page 121? Explain your logic.

3) (20 points) What will happen to national savings if the government increases its spending, assuming that Ricardian Equivalence holds? Explain your logic.

4) (25 points each) Illustrate the following events on the MPK^f/uc diagram. Explain why the curve(s) moved as drawn. What happens to the desired amount of capital and the user cost of capital?
A) A new technology is invented which will reduce the amount of electricity machines use.
B) The effective tax rate, τ, increases.