

Place your name on the back of this sheet of paper and nowhere else. 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. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (20 points) Explain $uc = \frac{(r+d)p_k}{1-\tau}$.

2) (20 points each) Illustrate the following events on the MPK^f/uc_k diagram. Explain why the curve(s) moved as drawn. What happens to the desired amount of capital and the user cost of it?

A) Future capital is more productive.

B) The price of capital increases.

3) (15 points) An increase in the depreciation rate has an indeterminate effect upon the desired amount of investment. Explain why.

4) (15 points) The book says that an increase in the tax rate could have no effect upon the national savings rate or it could increase the national savings rate. Explain how both of these could occur.

5) (10 points) According to the theories in this chapter, what effect would a stock market crash have? Explain your logic.