Wilf Csaplar Jr.   Economics 302   Homework #4   Due Friday 3/5

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) (15 points) Explain $uc_K = \dfrac{(r+d)p_K}{1-\tau}$.

2) (35 points) Illustrate an increase in the future marginal productivity of capital on the MPK^f/uc_K diagram and the S/I diagram. Explain why the curve(s) moved as drawn. What happens to the desired amount of capital, the interest rate, and the level of savings?

3) (35 points) Illustrate an increase in the corporate tax rate on the MPK^f/uc_K diagram and the S/I diagram. Explain why the curve(s) moved as drawn. What happens to the desired amount of capital, the interest rate, and the level of savings?

4) (15 points) Explain why an increase in the depreciation rate will have an ambiguous effect upon the amount of investment.