Wilf Csaplar Jr.   Economics 302   Homework #2   **Due Monday 2/25**

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) Illustrate the effects on increase in the price of capital 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 capital?

2) (20 points) Illustrate the effects on increase in the productivity of capital 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 capital?

3) (20 points) Explain $MPK^f = \dfrac{(r+d)p_K}{(1-\tau)}$

4) (10 points) Explain why an increase in the depreciation rate has an ambiguous effect upon the amount of investment.

5) (10 points each) For each event, determine what happens to national savings. Explain your logic.
A) Current GDP increases.
B) Wealth increases.
C) The government raises taxes.