

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 10 points. 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 $uc_K = \frac{(r+d)p_K}{1-\tau}$

2) (20 points) Draw the MPK^F/uc_K diagram. Illustrate the effects of a decrease in the price of capital. Explain why the curve(s) moved as drawn. What happens to the user cost of capital, desired amount of capital, and the amount of investment?

3) (20 points) Draw the MPK^F/uc_K diagram. Illustrate the effects of an increase in the amount of labor. Explain why the curve(s) moved as drawn. What happens to the user cost of capital, desired amount of capital, and the amount of investment?

4) (20 points) Draw the MPK^F/uc_K diagram. Illustrate the effects of a decrease in the depreciation rate. Explain why the curve(s) moved as drawn. What happens to the user cost of capital, desired amount of capital, and the amount of investment?

5) (10 points) The book says that an increase in government spending will decrease the total saving. Why does that occur?

6) (15 points) The book says that a decrease in the tax rate will decrease the total saving or not affect total saving. How can those two different events occur?