

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. If you do double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (10 points) Why is it important to study the determinant of the savings rate?
- 2) (35 points) Briefly explain both the *Duesnenberry Hypothesis* and the *Permanent Income Hypothesis*. Which do you feel is more accurate? Explain your logic.
- 3) (15 points) The USA is relying on foreign savings to finance some of its investment. Is this good or bad in net? Explain your logic.
- 4) (15 points) In Table 11-1 on page 404, how are the four numbers in the column "2010" calculated?
- 5) (10 points) What is the economic reason why investing in labor-intensive technology gives a better return than investing in capital-intensive technology?
- 6) (15 points) Suppose a company is thinking about building a plant. The cost this year would be \$500. Next year, they would lose \$50. For the ten years after that, they would make \$100 a year. If the desired interest rate is 10%, then would it be worthwhile to build this plant? Write the equation and then do the calculation. What is your conclusion?