

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 $c = f(k) - (n + d)k$.
- 2) (25 points) Draw the Solow Growth Model diagram. Illustrate the effects of an increase in the growth rate of the population. Explain why the curve(s) moved as drawn. What happens to the equilibrium capital-to-labor ratio and the output per worker?
- 3) (25 points) Draw the Solow Growth Model diagram. Illustrate the effects of a decrease in the savings rate. Explain why the curve(s) moved as drawn. What happens to the equilibrium capital-to-labor ratio and the output per worker?
- 4) (10 points) Solow used his model to conclude that all countries will converge to the same capital-to-labor ratio. Why don't we see this occurring?
- 5) (10 points) Use the equation for the Endogenous Growth Model to explain why President George W. Bush reduced the tax rate on dividends.
- 6) (15 points) We briefly mentioned k_{Max} . What is it and why don't we want to be there?