Economics 304 **Fall 2013**
Daily Problem #13 **October 9**

1. True or false (and explain): Higher real interest rates encourage investment.
2. Explain why the real rather than the nominal interest rate should be considered by firms when making investment decisions.
3. What assumption about the capital/output ratio is implicit in the simple accelerator model of investment? Is this assumption realistic?
4. What does it mean for q to be greater than one? Less than one? Why does the value of q affect the desire of firms to invest in new capital?