

1. When a firm uses labor input in production, is it using a stock or a flow? What are the units of labor input?
2. When a firm uses capital input, is it using a stock or a flow? What are the units of capital input?
3. Suppose that you own a unit of capital and have the choice of either renting it out to a firm for use in production or selling it and using the proceeds to buy a bond. The rental rate that you charge should make you indifferent between renting and selling. How would each of the following affect the nominal rental rate and why?
 - a. An increase in the real interest rate
 - b. An increase in the current price of capital goods
 - c. An increase in the depreciation rate
 - d. An expected future increase in the relative price of capital goods