Questions TA 8 session

Question 1

The neoclassical q theory of investment predicts that investment is responsive to the marginal value of capital, while the large body of empirical evidence suggests otherwise. Why?

Select one or more:

- [ ] a. Adjustment costs used in the q theory implies investment is smooth, while investment at the plant level is lumpy in data.
- [ ] b. The capital market is frictionless in the q theory, while plants/firms may be financially constrained and thus cannot achieve the full scale of investment as implied by the Q theory.
- [ ] c. The theory implies "average q" cannot be used to proxy "marginal q".

Question 2

Which of the following statements are true?

Select one or more:

- [ ] a. Investment stimulus like “bonus” depreciation alters the timing of deductions but not their amount. But, as long as firms evaluate future deductions worth less than current deductions, such a bonus depreciation scheme can work.
- [ ] b. In a model of capital investment of firms, where investment is costly to undo/reverse (i.e capital cannot be resold for its full purchase price), the investment response to demand shocks can be zero.
- [ ] c. Investments in long-lasting capital assets are normally written off over a multi-year period, while most research and development expenditures can be written off in the current year. As such, the tax code treats research and development expenditures more generously than capital investment.