

Macro Module 7 Market for capital practice exam questions

Question 7.1: Market for capital

- The price level is 1.75; the supply of capital K^s is now 11.84, and the real rental price R/P is now 8.22%.
- The capital utilization rate (κ) = 100%, the depreciation rate of capital δ = zero, and capital \times the marginal product of capital = 1.

Both capital and the capital utilization rate are fixed in the short run.

What happens in the short run as the market for capital clears?

Answer 7.1: The market clears by the real rental price changing to $1 / \text{the supply of capital} = 1/11.84 = 8.45\%$