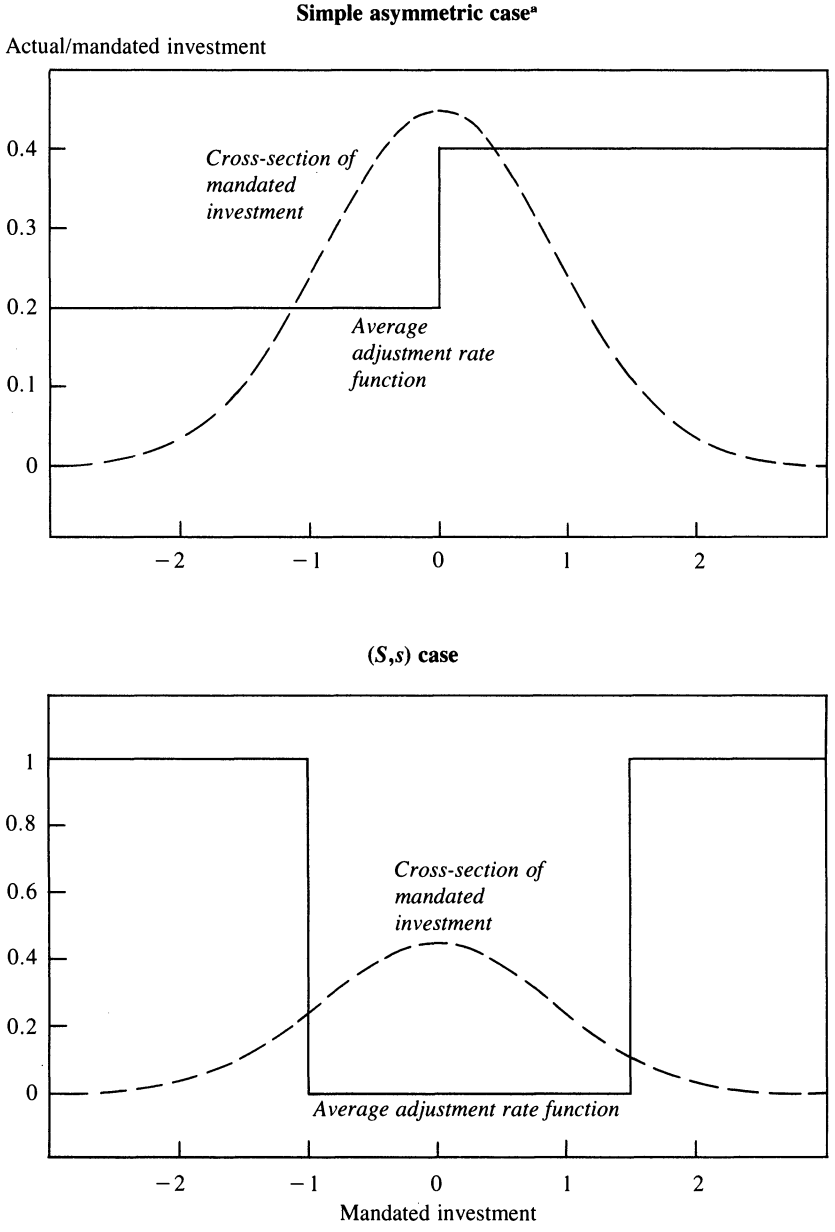
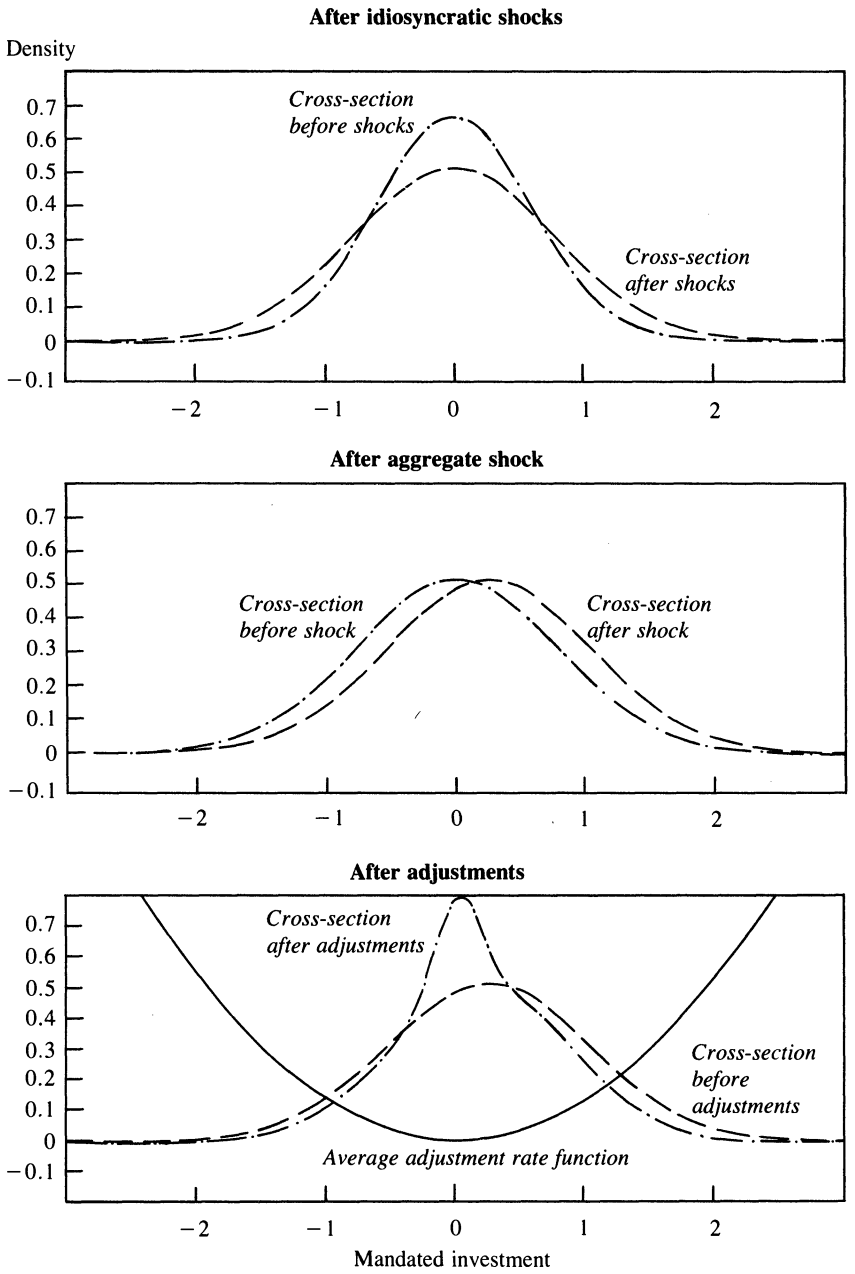
Figure 1. Adjustment Rate Function and Cross-Sectional Distribution



Source: Authors' model as described in text.

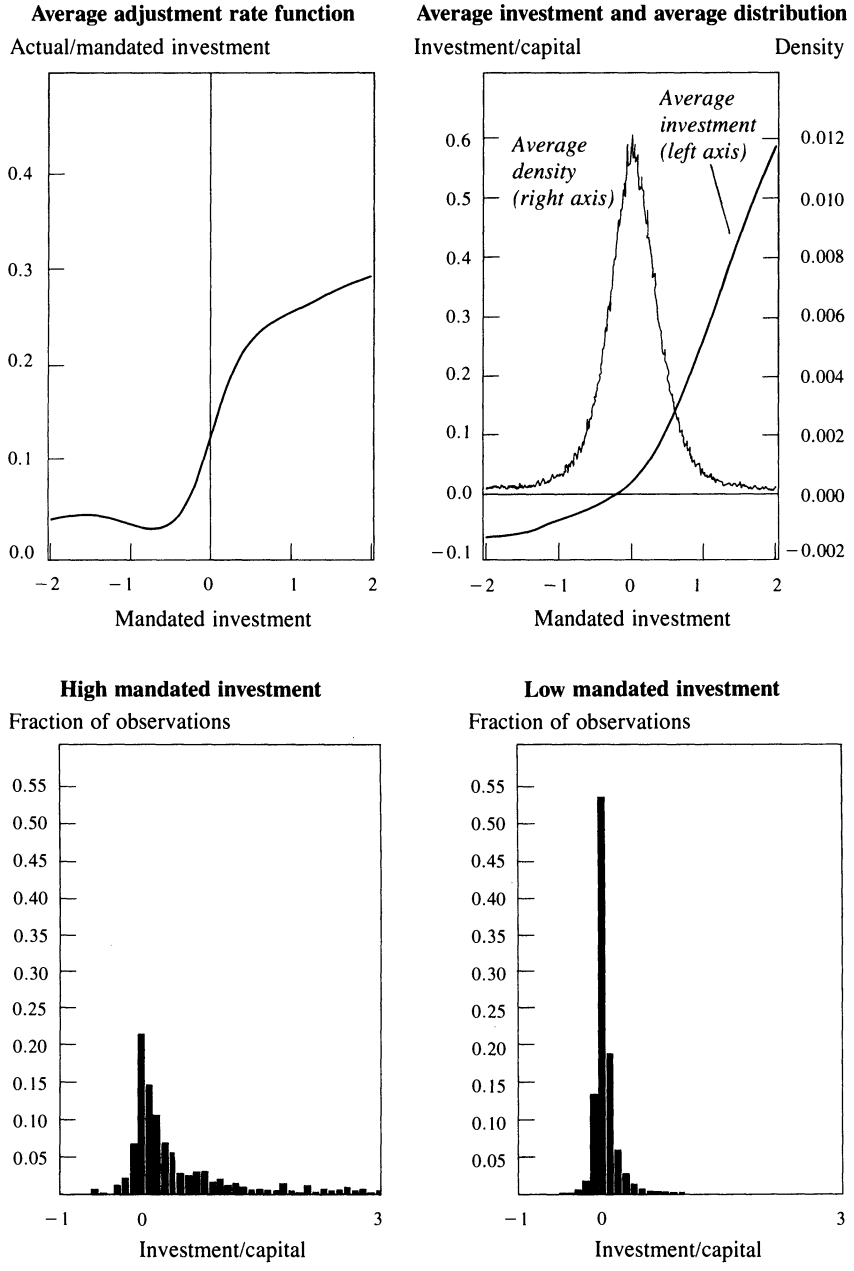
a. The adjustment rate is the ratio of actual investment to mandated investment, where mandated investment represents the difference between the natural log of desired capital and the natural log of actual capital.

Figure 2. Evolution of Distribution of Mandated Investment



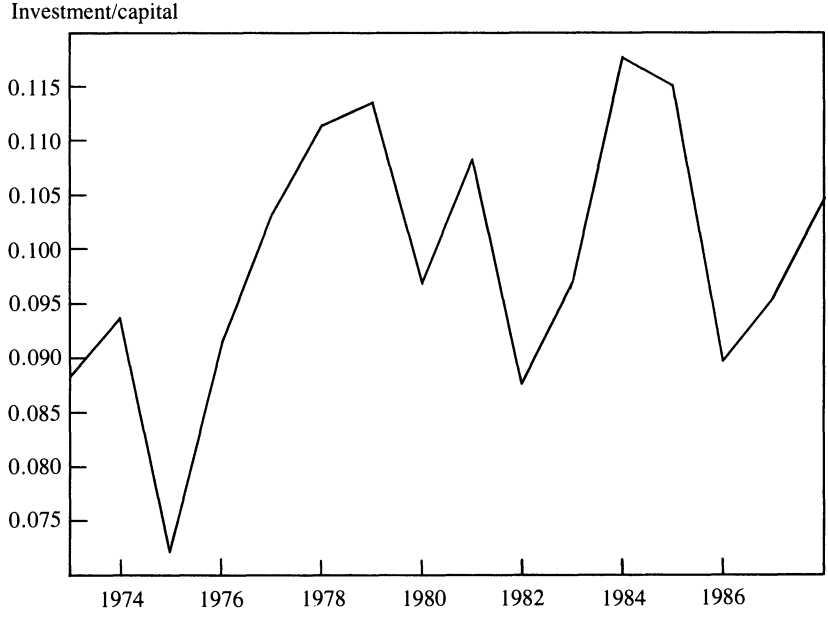
Source: Authors' model as described in text.

Figure 8. Relationship between Investment and Mandated Investment



Source: Authors' calculations using data from the LRD.

Figure 16. Marginal Response of Aggregate Investment to Aggregate Shock, 1973–88[a]



Source: Authors' calculations using data from the LRD.
a. The *y*-axis gives the effect of doubling the cost of capital on the investment-to-capital ratio.

Conclusion

This paper started on a pessimistic note and concludes on a more positive one. Despite the simplicity of the "almost accounting" framework used, it has yielded a view on U.S. equipment investment that is not at odds with common sense:

—There are large long-run elasticities of investment with respect to cost of capital. These vary from about -0.01 for transportation to -2.0 for textiles, with an average of around -1.0, the neoclassical benchmark.

—Over the short run, the responses are substantially smaller and

diately after tax reforms, including the 1986 reform. In contrast, our result shows that there is a large impact on aggregate investment due to the 1986 reform, induced, in part, by the time varying elasticity.