c. Suppose the rental cost of equipment increases to $5 per hour. What is the new mix of labor and capital that the firm will use to produce 20,000 pairs of earrings and at what cost?

12a. If L and K are substitutes in production, what happens to the amount of L and K used when the cost of capital rises?

b. On a separate sheet of paper, show (a) graphically.

c. If L and K are substitutes in production, what happens to the amount of L and K used when the cost of capital falls?

d. On a separate sheet of paper, show (c) graphically.

e. If skilled L and K are complements in production, what happens to the amount of skilled L and K used when the cost of capital rises?

13. On a separate sheet of paper, reproduce your graph from 12c above, and add a scale effect.