

Pandas and Statsmodels

Brian C. Jenkins

Econ 126: Computational Macroeconomics

University of California, Irvine

February 21, 2019

- Recall human capital-augmented Cobb-Douglas production function:

$$Y = AK^{\alpha} (hL)^{1-\alpha}, \quad (1)$$

where:

- Recall human capital-augmented Cobb-Douglas production function:

$$Y = AK^{\alpha} (hL)^{1-\alpha}, \quad (1)$$

where:

- Y : production of final goods and services

- Recall human capital-augmented Cobb-Douglas production function:

$$Y = AK^{\alpha} (hL)^{1-\alpha}, \quad (1)$$

where:

- Y : production of final goods and services
- K : stock of physical capital

- Recall human capital-augmented Cobb-Douglas production function:

$$Y = AK^{\alpha} (hL)^{1-\alpha}, \quad (1)$$

where:

- Y : production of final goods and services
- K : stock of physical capital
- L : labor force

- Recall human capital-augmented Cobb-Douglas production function:

$$Y = AK^{\alpha} (hL)^{1-\alpha}, \quad (1)$$

where:

- Y : production of final goods and services
- K : stock of physical capital
- L : labor force
- h : human capital *per worker*

- Recall human capital-augmented Cobb-Douglas production function:

$$Y = AK^\alpha (hL)^{1-\alpha}, \quad (1)$$

where:

- Y : production of final goods and services
- K : stock of physical capital
- L : labor force
- h : human capital *per worker*
- A *total factor productivity* or TFP

- In the production function, every variable *except* A is *measured*:

- In the production function, every variable *except* A is *measured*:
 - Y measured by (real) GDP

- In the production function, every variable *except* A is *measured*:
 - Y measured by (real) GDP
 - K : inferred from investment and depreciation data

- In the production function, every variable *except* A is *measured*:
 - Y measured by (real) GDP
 - K : inferred from investment and depreciation data
 - L : measured as number of workers or number of worker hours

- In the production function, every variable *except* A is *measured*:
 - Y measured by (real) GDP
 - K : inferred from investment and depreciation data
 - L : measured as number of workers or number of worker hours
 - h : typically measured as average years of education

- In the production function, every variable *except* A is *measured*:
 - Y measured by (real) GDP
 - K : inferred from investment and depreciation data
 - L : measured as number of workers or number of worker hours
 - h : typically measured as average years of education
- Of course macroeconomic measurement is subject to *measurement error*.

- The production function *implies* a value for A :

$$A = \frac{Y}{K^{\alpha}(hL)^{1-\alpha}} \quad (2)$$

- The production function *implies* a value for A :

$$A = \frac{Y}{K^{\alpha}(hL)^{1-\alpha}} \quad (2)$$

- A captures all other determinants of production that are not reflected in K , L , or h . For example:

- The production function *implies* a value for A :

$$A = \frac{Y}{K^{\alpha}(hL)^{1-\alpha}} \quad (2)$$

- A captures all other determinants of production that are not reflected in K , L , or h . For example:
 - Quality of economic and political institutions

- The production function *implies* a value for A :

$$A = \frac{Y}{K^{\alpha}(hL)^{1-\alpha}} \quad (2)$$

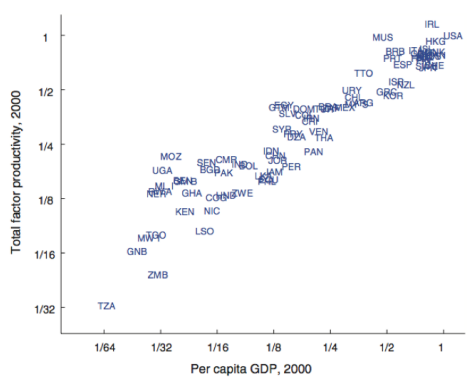
- A captures all other determinants of production that are not reflected in K , L , or h . For example:
 - Quality of economic and political institutions
 - Degree of technology adoption

- The production function *implies* a value for A :

$$A = \frac{Y}{K^{\alpha}(hL)^{1-\alpha}} \quad (2)$$

- A captures all other determinants of production that are not reflected in K , L , or h . For example:
 - Quality of economic and political institutions
 - Degree of technology adoption
 - Public health

Figure 1: TFP and GDP per capita across countries. All values relative to the US. Source: Jones and Romer (2010)



- *Even after accounting for their lower levels of human capital per worker and physical capital per worker, workers in lower-income countries are less productive*

- *Even after accounting for their lower levels of human capital per worker and physical capital per worker, workers in lower-income countries are less productive*
- Workers in lower-income countries use what human and physical capital they *do* have less efficiently than workers in higher-income countries.

- *Even after accounting for their lower levels of human capital per worker and physical capital per worker, workers in lower-income countries are less productive*
- Workers in lower-income countries use what human and physical capital they *do* have less efficiently than workers in higher-income countries.
- Since TFP isn't directly observable, we still don't know exactly why.

Jones, Charles I. and Paul M. Romer, “The New Kaldor Facts: Ideas, Institutions, Population, and Human Capital,” *American Economic Journal: Macroeconomics*, 2010, 2 (1), 224–45.