

EC1B5 Winter Term 2023-24

Answer Key to Discussion Question 3 (Week 4 Class)

Week 4 class: We have studied the Solow growth model in the lecture. This question is about how to apply the model.

- Compare economic growth rates of China and the UK during 1980-2010. What are reasons you find online that is behind the fast growth rate of China?
- How can you use a Solow growth model to explain the fast economic growth rate of China, compared to the UK? Make use of the relevant graph and equations.

Answer key:

China experienced what we called a growth miracle during this period, above 5% which is more than double the growth rate in the U.K. Some of the typical reasons are economic reforms, increase in openness to trade, adopting better technologies and China is catching up to the rest of the world.

The Solow model can capture several perspectives of China's faster economic growth and they can all be illustrated with the graph with the saving curve and depreciation curve. First, China has a lower level of capital stock, so faster growth is due to catch-up growth. In the graph K_0 for China is far from the steady state point. Second, China experienced an increase in saving rate. In the graph, this shifts the saving curve up. Third, China experienced an increase in A due to adoption of better technology and/or institutional reform. In the graph, this shifts the saving curve up.

