

Question 1

What story does the graph below tell about the contributions of the developed and the developing world between 1990 and 2011 to global GDP growth? How does the GFC appear to have affected those relative contributions?

The graph shows that developing economies pre-2000 contributed relatively little to global GDP growth, but post-2000 began to contribute more, overtaking advanced economies after 2001. The GFC in 2008/2009 massively decreased the growth of the world GDP, even reducing rather than growing in 2009. This change was brought about entirely by the collapse of advanced economies, with developing ones contributing very little to these events, but world GDP suffered nevertheless. After the GFC, developing economies were still the main contributors to world GDP, as they had been for several years, again showing that the GFC impacted mainly advanced economies, as the developing world took a very short time to recover from the crisis.

Question 3

Use the production function equation to describe the 'income inequality hypothesis', i.e. that labour income is being redistributed to capital. What might that particular model imply about what is happening and why? *Note: this is not a 'comparative static' like question 2 as all you need to is use the model to explain a hypothesis. But you are welcome to do a comparison if you find it useful.*

Production Function: $Y = f(\text{Capital, Land, Labour})$

The production function equation states that output is a function of Capital, Land and Labour.