

Module Overview: Economic Growth and Productivity

When you read the daily business news, it is dominated by reports of stock price fluctuations, the monthly unemployment and inflation rates, trade statistics, and speculation about whether the Federal Reserve will raise interest rates. But as important as these events are for job hunters or investors, they are only small ripples on the larger wave of economic growth. Year in and year out, advanced economies like the United States accumulate large quantities of capital equipment, push out the frontiers of technological knowledge, and become steadily more productive. Over the long run of decades and generations, living standards, as measured by output per capita or consumption per household, are primarily determined by the level of productivity and growth of a country.

In this module, we are going to examine the complicated process of economic growth. In doing so, we will not only come to understand more clearly the critical role that productivity plays in this process, but we will also gain some valuable insight into both how and why government policies play a critical role in the growth process.

Key Questions:

1. Define economic growth.
2. What are the four supply factors of growth?
3. What two other factors are important in economic growth?
4. Use PPF analysis to contrast Adam Smith's golden age of growth versus Thomas Malthus' doomsday.
5. Explain the basic underlying principle of the Neoclassical growth model and provide examples.
6. Why does capital deepening not lead to a proportional increase in output?
7. What happens to worker wages and the return on capital as a result of capital deepening?
8. Explain why capital deepening in the absence of technological change leads to economic stagnation.
9. Define, and provide examples of, technological change.
10. Use the concept of the aggregate production function to illustrate the differing roles that capital deepening and technological change play in economic growth.
11. Which factors of growth have been the most instrumental in increasing labor productivity?
12. According to economist Edward Denison, what has been the most important source of economic growth in the US?
13. Explain the relationship between productivity and wages.
14. Is more growth always good?
15. How might the government use public policy to stimulate growth? Discuss both Demand-side and Supply-side options.