Economic growth, pt. 1

EC 103–004

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Spring 2024

Motivation

Housekeeping

Required readings:

- `OpenStax, ch. 7`.

Required listening:

- `Planet Money podcast: Booms, Busts & Us`

Key macroeconomic problems

Key macroeconomic problems

Macroeconomic problems and concerns are diverse, but may be summmarized by **three** major issues:

1. **Output growth**;
2. **Unemployment**;
3. **Inflation**.

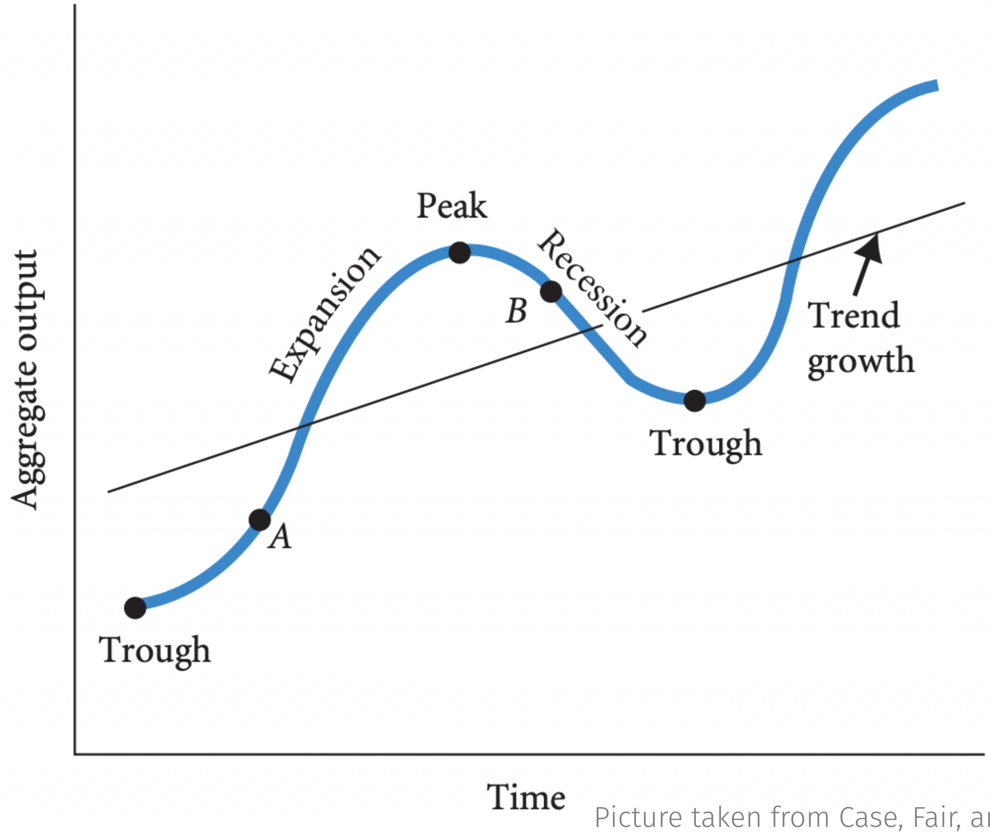
Every economic policy maker will state that their goals are **high output growth**, **low unemployment**, and **low inflation** (or stable prices).

...But are these *feasible* altogether?

Key macroeconomic problems

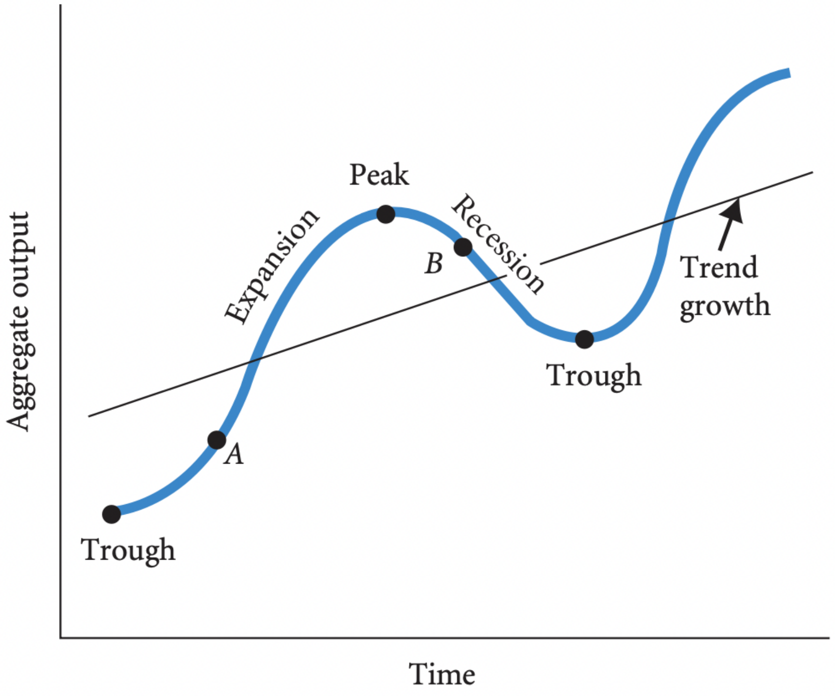
On average, economies tend to **rise** over time.

However, this process has its short-run *ups* and *downs*.



Picture taken from Case, Fair, and Oster (2012).

Key macroeconomic problems



- These periods of *ups* and *downs* experienced by a national economy are known as **business cycles.**
- The highest point of the business cycle is known as the **peak**.
- The lowest, the **trough**.
- An economic **expansion** is the period from a *trough* to a *peak*.
- And from *peak* to *trough* we have economic **recessions**.
- Most business cycles are not **symmetrical**.

Key macroeconomic problems

`US National Bureau of Economic Research (NBER) business cycle information`

Key macroeconomic problems

Over the long-run trajectory of economic growth, business cycles produce different **unemployment** and **inflationary** contexts.

All of these issues will be further investigated in the *upcoming weeks*.

Key macroeconomic problems

While possible explanations for macroeconomic **ups and downs** will be explored in the next lectures, we can say that there will always be **diverse** views on its *causes* and *consequences*.

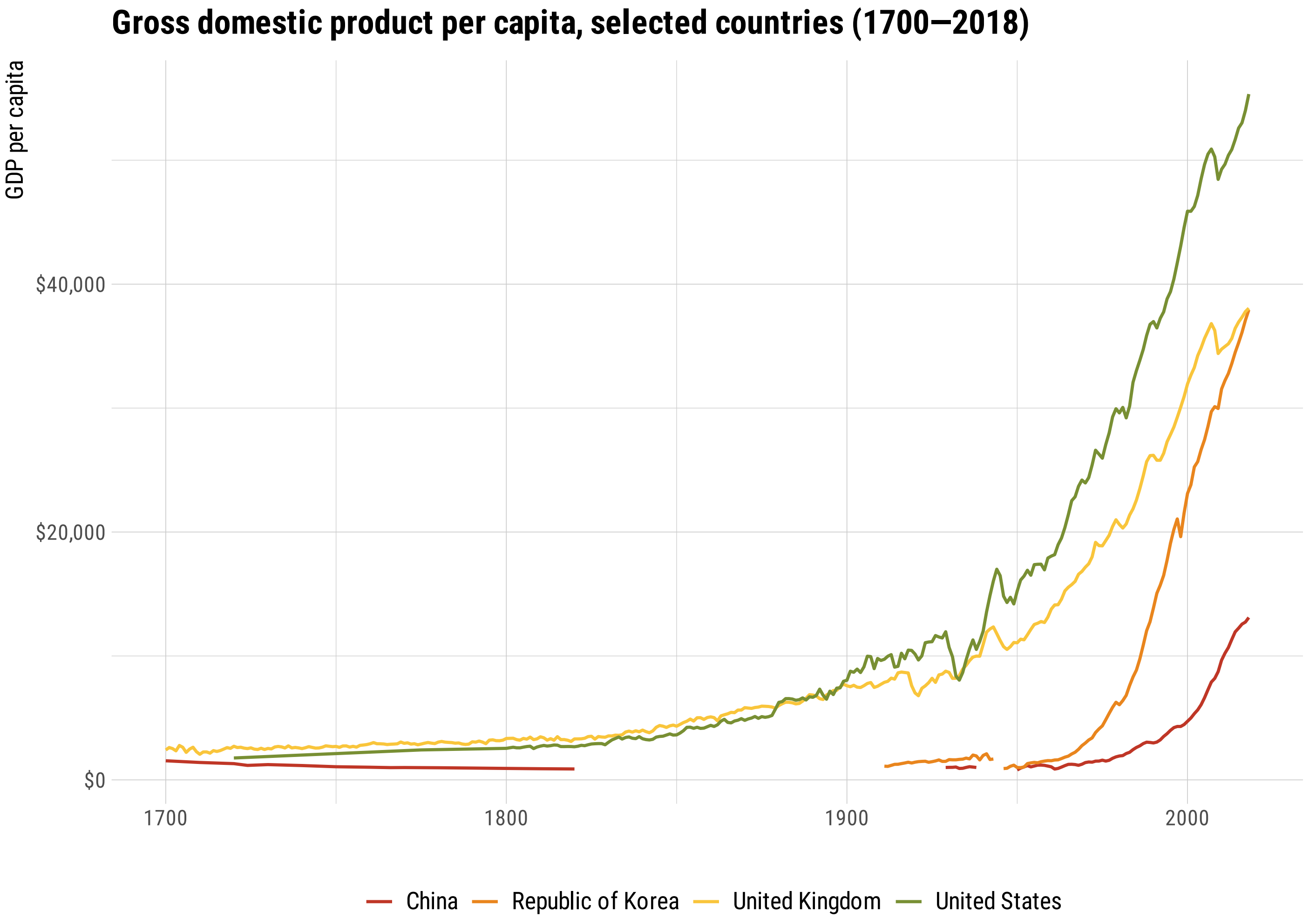
However, some **indicators** may be used as **signs** indicating *when* recessions may occur.

A few examples:

1. Manufacturers' new orders for consumer goods and materials;
2. `Index of consumer expectations`;
3. Stock prices;
4. `Weekly unemployment insurance initial claims`.

A recent phenomenon

Growth: A recent phenomenon



Source: The Maddison Project.

Growth: A recent phenomenon

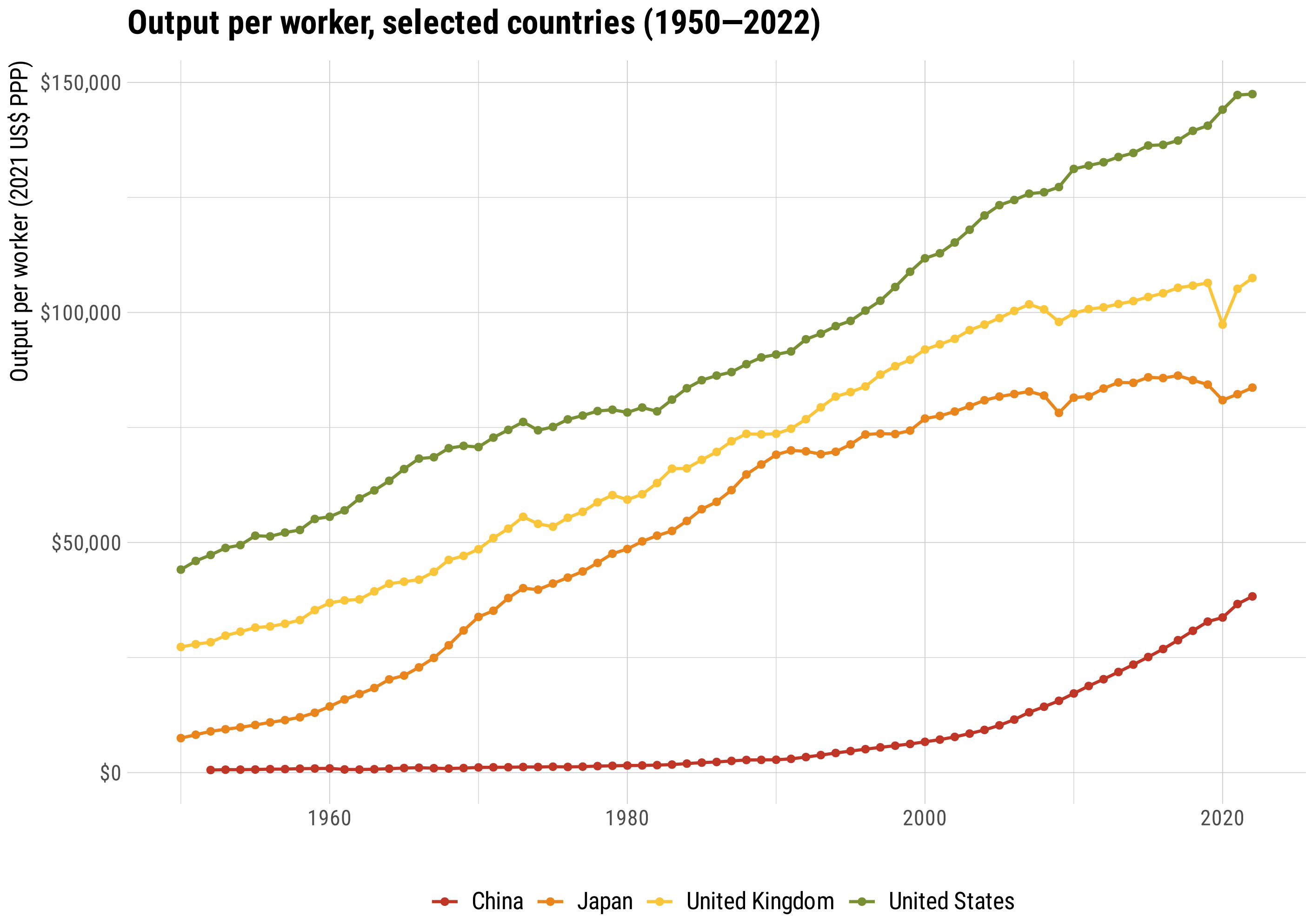
Measuring **GDP *per capita*** (i.e., *GDP/total population*) is a valid (but rough) measure of a nation's overall standard of living, as it measures how much output each individual would receive in case total output were evenly divided across society members.

If, instead, we turn our attention to economic growth, the concept of **output per worker** seems more appealing.

Output per worker measures how much output each worker, on average, is producing.

- It is **not** the same as output *per capita*, since not everyone in the population *formally* works.
- It can also be called **labor productivity**.

Growth: A recent phenomenon



Source: Total Economy Database.

Growth: A recent phenomenon

What *drives* this increase in labor productivity?

Next time: More on labor productivity; Computing growth