

Study of the Cobb-Douglas production function for an economy and its implications

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$$\mathcal{L}(w, r, L, K, Y) = wL + rK + \lambda(Y - AL^\alpha K^\beta)$$
$$\frac{\partial \mathcal{L}}{\partial L} = w = \lambda\alpha L^{\alpha-1} K^\beta$$
$$\frac{\partial \mathcal{L}}{\partial K} = r = \lambda\beta L^\alpha K^{\beta-1}$$
$$\frac{\partial \mathcal{L}}{\partial \lambda} = Y - AL^\alpha K^\beta = 0$$

Description: -

-study of the Cobb-Douglas production function for an economy and its implications

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Cobb

From point A upwards, the total product increases at a diminishing rate till it reaches its highest point C and then it starts falling.

3 Types Of Production Functions: Cobb Douglas, Leontief, CES

We may decompose function coefficient further.

Explain the properties of Cobb

The Economy Has A Capital Share Of A Third, A Saving Rate Of 24%, A Depreciation Rate Of 3%, A Rate Of Population Growth Of 2%, And A Rate Of Labor-augmenting Technological Change Of 1%. If this process continues and still more labour is added to land, the marginal productivity may become zero or even negative. It Is In Steady State.

What Is Production Function? Formula, Uses, Assumption

But, in practice, this distinction often gets blurred.

Study Notes on the Employment Function

If the resultant value of $a+b$ is 1, it implies that the degree of homogeneity is 1 and indicates the constant returns to scale. In practice, however, no entrepreneur will like to increase the various units of inputs in order to have a proportionate increase in output. It is another thing that this stage may come after some time and for a short while.

Solved: ONLY ANSWER PART D. An Economy Has A Cobb

In Statistical empirical analysis, we often use man hours as the measurement of labour, machine-hours as the measurement for capital, and land-depletion as the measurement of land.

Cobb

So, some items of fixed cost like interest changes on external capital are negotiable and hence avoidable even in the short run. After the economy reaches its new steady state, the growth rate of output per worker will be equal to percent. The application of additional units of labour and capital to a piece of land causes diminishing returns.

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