

ECONOMIC GROWTH & PRODUCTIVITY

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AP Macroeconomics

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WHAT IS ECONOMIC GROWTH?

- * Economic growth is a sustained increase in Real GDP over time.
- * This means a sustained increase in Real GDP per capita (Total Income / U.S. Population) over time.

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WHY WOULD A COUNTRY WANT TO GROW?

- * Growth leads to greater prosperity for society.
- * Lessens the burden of scarcity.
- * Increases the general level of well-being.

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CONDITIONS FOR GROWTH

- * In order to grow, there must be a willingness to sacrifice current consumption in order to grow within that country.
- * The country must be willing to:
 - * Save
 - * Trade with others for what they lack yet still need

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PHYSICAL CAPITAL

- * Tools, machinery, factories, infrastructure
- * Physical Capital is the product of Investment.
- * Investment is sensitive to interest rates and expected rates of return.
- * It takes capital to make capital.
- * Capital must be maintained.

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TECHNOLOGY & PRODUCTIVITY

- * Research and development, innovation and invention yield increases in available technology.
- * More technology in the hands of workers (Human Capital) increases productivity.
- * Productivity is output per worker.
- * More Productivity = Economic Growth.

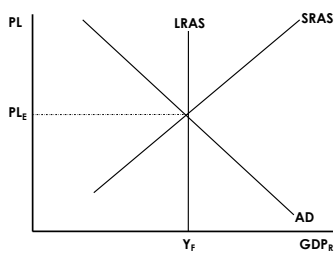
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HUMAN CAPITAL

- * People are a country's most important resource. Therefore human capital must be developed.
- * In order to develop Human Capital, money must be invested into education and there must be increased access to technology

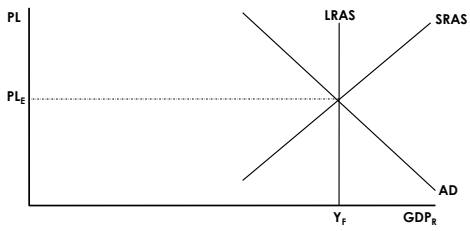
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GROWTH ILLUSTRATED



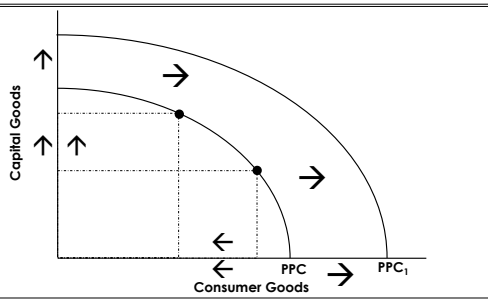
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GROWTH ILLUSTRATED



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GROWTH ILLUSTRATED



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HINDRANCES TO GROWTH

- * Economic and Political Instability
 - High inflationary expectations
- * Lack of Savings
- * Excess current consumption
- * Failure to maintain existing capital
- * Crowding Out of Investment
 - Government deficits & debt increasing long term interest rates!
- * Trade Barriers

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SUMMARY

- * In order for a country to have long-term and substantial growth, the people must look and plan for the future.
- * If a nation does not build up its Human and Physical Capital, any growths that occur will be short-term and unsustainable.
- * Long-term economic growth benefits all members of society and helps to lessen the burden of scarcity.

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