

Unit VI: Economic Growth

Topic 1: Economic Growth & Productivity (Modules 37-40)

“The course should introduce the framework and examine how long-run economic growth occurs. Students should understand the role of productivity in raising real output and the standard of living, and the role of investment in human capital formation and physical capital accumulation, research and development, and technical progress in raising productivity. Having learned the determinants of growth, students should examine how public policies influence the long-run economic growth of an economy.”

(http://apcentral.collegeboard.com/apc/public/repository/ap08_economics_coursedesec.pdf)

Topics Covered:

VI. Economic Growth and Productivity (5-10%)

- A. Investment in human capital
- B. Investment in physical capital
- C. Research and development, and technological progress
- D. Growth policy

Topic 1: Economic Growth

Economic Growth

Krugman Text: Modules 37-40

Objectives:

1. Define and calculate the economic growth rate, and explain the implications of sustained growth
2. Identify the main sources of economic growth
3. Review the theories of economic growth that explain why growth rates vary over time and across countries
4. Describe the policies that might speed economic growth

Key Terms:

Economic Growth Rate	Real GDP
Real GDP per capita	Rule of 70
Labor Productivity	Expansion of Human Capital
Expansion of physical capital	Infrastructure
R & D	Economic Freedom
Property Rights	One Third Rule
Classical (Malthusian) Theory of Growth	Neoclassical Theory of Growth
New Growth Theory	

Key Conceptual Questions:

1. Define the economic growth rate
2. Calculate the growth rate of real GDP
3. Calculate the growth rate of real GDP per capita
4. Explain and be able to use the Rule of 70
5. Explain why growth in real GDP can be divided into growth in aggregate hours and growth in labor productivity
6. Tell how labor productivity is calculated
7. Explain the law of diminishing returns
8. List and explain the preconditions for economic growth