ECON 2105H  
Problem set 6  
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1. Suppose the subsistence level of output per person decreases, due to advances in medical treatment. Use the subsistence (Malthusian) theory of growth to predict the effect of this change on output, population and labor productivity.

2. It is well known that output in many Asian countries, such as Singapore and Korea, has grown at extraordinarily high rates over the last few decades. Some economists claim that this growth is due to high growth in inputs – labor and capital – not productivity. If this claim is indeed true, should we expect this growth to continue? Why or why not?

3. Over the past century in the US, growth in labor productivity and growth in the capital/labor ratio have roughly been equal, about 2.5% annually. Why then do economists claim that technological advance must be an important component of growth in the US? What is a rough estimate of the contribution of technology to the growth in US productivity?

4. How might a permanent increase in government spending affect the rate at which an economy grows? Hint: one way to answer this question is to use the spending shares model of the market for borrowing and lending.

5. *The Economist* article on growth (see my Oct. 28 e-mail) mentions property rights and legal systems as important for economic growth. Why is this an important lesson for less-developed economies that perhaps have not attained their production possibility frontiers?

6. Is economic growth a good thing or a bad thing? Why?