




growth


Chapter 6
Growth 6-1



Laughter Curve

An Indian-born economist once explained his personal theory of reincarnation to his graduate economics class.

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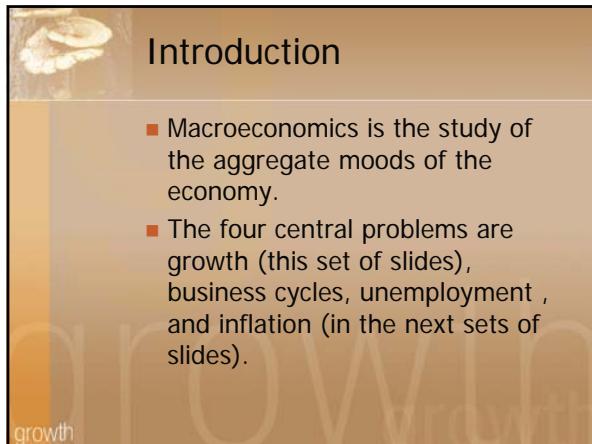


Laughter Curve

"If you are a good economist, a virtuous economist," he said, "you are reborn as a physicist."

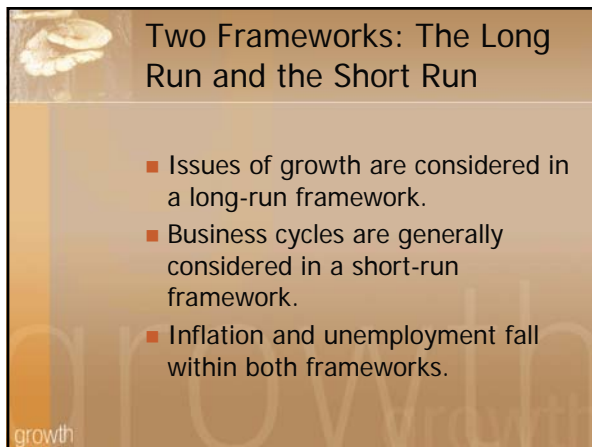
"But if you are an evil, wicked economist, you are reborn as a sociologist."

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Introduction

- Macroeconomics is the study of the aggregate moods of the economy.
- The four central problems are growth (this set of slides), business cycles, unemployment, and inflation (in the next sets of slides).



Two Frameworks: The Long Run and the Short Run

- Issues of growth are considered in a long-run framework.
- Business cycles are generally considered in a short-run framework.
- Inflation and unemployment fall within both frameworks.



Growth

- The primary measurement of growth is changes in real gross domestic product.
- **Real gross domestic product (real GDP)** – the market value of goods and services stated in the prices of a given year.



Growth

- The U.S. **secular growth rate** is between 2.5 to 3.5 percent per year.
 - Long run

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Growth

- Per capita real output growth has been 2.5 to 3.5 percent per year.
- **Per capita real output** is real GDP divided by the total population.

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Global Experience with Growth

- Today's growth rates are high by historical standards.
- The range of growth rates among nations is wide.
- African countries have consistently grown below the world average.


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Global Experience with Growth

- The growth trend we now take for granted started at the end of the 18th century.
- At about the same time, markets and democracies became the primary organizing structures of society.


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The Benefits and Costs of Growth

- Per capita economic growth allows everyone in society, on average to have more.
- Growth, or predictions of growth, allows governments to avoid hard questions.

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The Benefits and Costs of Growth

- The costs of growth include pollution, resource exhaustion, and destruction of natural habitat.
- Again back to that trade-off problem of Opportunity Cost.

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