

MACROECONOMICS AT WORK EXERCISE

THE GROWTH OF GDP OVER TIME

REFERENCE: Gary S. Becker, ‘The Productivity Boom Is Just Warming Up’, *BusinessWeek*, 20 October 2003, p. 16.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 5, 9.

OVERVIEW

This article, written by a US economist and winner of a Nobel Prize in Economics, analyses the phenomenon of the increase in GDP over time, i.e. economic growth. This is the *long-run* issue in macroeconomics, the *short-run* issue being fluctuations in the level of GDP around this long-term trajectory – though in practice it is often difficult to distinguish between the two, particularly if considering increases in GDP, or economic growth, over a relatively short period of time such as one or two years. Economic growth, which is generally equated with an increase in the standard of living, has two major sources: *developments in technology* and *improvements in productivity*. The article discusses these concepts in the context of the US economy ‘picking up steam’ in the second quarter of 2003, but also in the longer term context of the record of the previous decade.

QUESTIONS

1. Give some examples of ‘developments in technology’.
2. What is meant by ‘productivity’ and how are improvements in productivity related to developments in technology?
3. Explain the writer’s belief that ‘the US economy is in the relatively early stages of a major technological revolution’.
4. What are the implications for both economic growth and employment drawn by the writer?
5. In what ways and to what extent does this analysis apply to Australia?