

## MACROECONOMICS AT WORK EXERCISE

### PRODUCTIVITY

**REFERENCE:** 'A productivity primer' ('Economics focus'), *The Economist*, 6 November 2004, p. 93.

### CHAPTER RELEVANT TO THIS EXERCISE: 9

### CONTEXT

Economic growth in an economy, however it is measured (usually by an increase in GDP per capita over time), is explained largely in terms of an increase in the *productivity* of those resources. Increases in productivity allow a larger amount of *output* to be produced for a given level of *input*.

Such increases arise principally from an increase in *capital* (goods which can be used by labour to produce other goods, e.g. machinery).

They are augmented by increases (or advances) in *technology*. This is a broad and somewhat nebulous concept, perhaps best thought of as akin to 'knowledge' or 'ingenuity'. Advances in technology – which are *embodied in capital* – also allow the productivity of an economy's resources to be increased.

This article is about the key economic concept of productivity – a concept that it notes tends to be 'tossed around' by economic commentators – and its relative importance in the recent experience of economic growth.

### QUESTIONS

1. What is the most commonly used measure of productivity used in the US? How has the US performed in this regard in recent years?
2. Explain the difference between the concepts of *labour productivity* and *multi-factor productivity (MFP)*.
3. Why is MFP regarded as a 'better' measure of productivity in an overall sense? Does the use of this measure alter our view about productivity increases in the case of the US?

4. Explain the concept of 'capital deepening' and how it relates to the distinction between labour productivity and MFP.
5. Explain the statement in the article: 'The big part played by capital deepening in America's faster labour productivity growth raises questions about its sustainability'.
6. What is meant by, and what is the significance for productivity of, the observation that labour markets are 'rigid'? What is the meaning and significance for productivity of 'reforms' in these markets?