

# Chapter 10 Long Run

Thursday, February 21, 2013  
11:02 AM

## Classical Long-Run Policy

Chapter 10-1

---

---

---

---

---

---

---

- ### Chapter Goals
- Define growth, list its benefits and costs, and relate it to living standards
  - Discuss the relationship among markets, specialization, and growth
  - List five important sources of growth
  - Explain how the sources of growth can be turned into growth

---

---

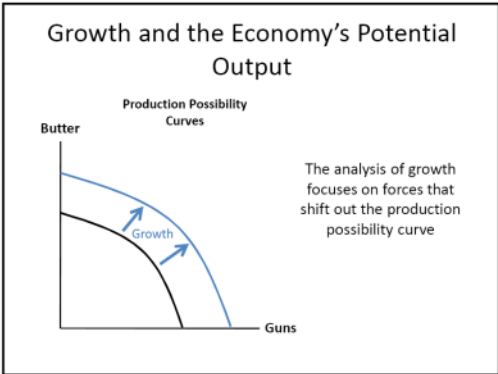
---

---

---

---

---



---

---

---

---

---

---

---

**Growth and the Economy's Potential Output**

- Growth is an increase in potential output
- **Potential output** is the highest amount of output an economy can produce from existing production processes and resources
- **Productivity** is output per unit of input
- The long-run growth focus is on how to increase potential output
  - *Say's Law* is that supply creates its own demand
- The short-run focus is on how to get the economy operating at its potential

---

---

---

---

---

---

---

**Importance of Growth for Living Standards**

- Growth in income improves average living standards
- Because of compounding, long-term growth rates can make huge differences
- The **rule of 72** states:
  - The # of years to double income =  $72/\text{growth rate}$
- If China's per capita income of \$8,500 grows 8% per year and the U.S. per capita income of \$50,000 grows 1% per year:
  - Within 27 years per capita income in China will surpass that in the U.S. and after 9 more years will be significantly higher

---

---

---

---

---

---

---

**Markets, Specialization, and Growth**

- Markets, specialization, and the division of labor increase productivity and growth
  - **Specialization** is the concentration of individuals on certain aspects of production
  - **Division of labor** is the splitting up of a task to allow for specialization of production
- Markets may seem unfair because of the effect that they have on the distribution of income
- Even though growth isn't evenly distributed, it generally raises the incomes of the poor

---

---

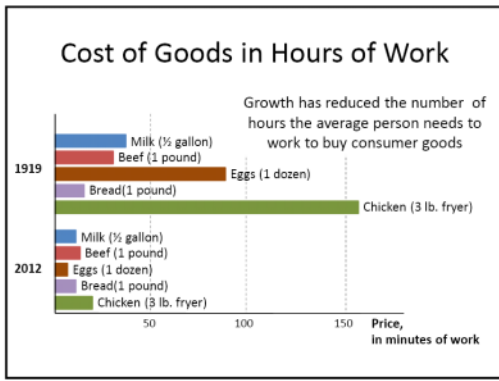
---

---

---

---

---




---



---



---



---



---



---



---

### Per Capita Growth

- Per capita output is total output divided by total population
- **Per capita growth** means the country is producing more goods and services per person
  - Per capita growth = % Δ in output – % Δ in population
- Some suggest that median income is a better measure because it takes into account how income is distributed

---



---



---



---



---



---



---