Liberty High School

AP Macroeconomics

Mr. Lopez

Chapter 25

Study Guide

Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Period:\_\_\_\_\_\_\_\_

Part 1 – Key terms

1. Real GDP per person (pre-capita):
2. Growth rate:
3. Productivity:
4. Physical capital:
5. Factors of production:
6. Human capital:
7. Natural resources:
8. Renewable resources:
9. Non-renewable resources:
10. Technological knowledge:
11. Production function:
12. Constant returns to scale:
13. Diminishing returns:
14. Catch-up effect:
15. Foreign direct investment:
16. Foreign portfolio investment:
17. Externality:
18. Property rights:
19. Infant-industry argument:
20. Inward oriented policies:
21. Outward oriented policies:
22. Public good:

Part 2 – Problems and short answers

1. Use the following table to answer this question:

|  |  |  |
| --- | --- | --- |
| **Country** | **Current real GDP/Person** | **Current Growth Rate** |
| Northcountry | $15,468 | 1.98% |
| Southcountry | 13,690 | 2.03 |
| Eastcountry | 6,343 | 3.12 |
| Westcountry | 1,098 | 0.61 |

1. Which country is richest? How do you know?
2. Which country is advancing most quickly? How do you know?
3. Which country would most likely see the greatest benefit from an increase in capital investment? Why?
4. Referring to c above, would this country continue to see the same degree of benefits from an increase in capital investment forever? Why or why not?
5. Referring to question d above, why might investment in human capital and research and development fail to exhibit the same degree of diminishing returns as investment in physical capital?
6. Which country has the potential to grow most quickly? List some reasons why it may not be living up to its potential.
7. If real GDP per person in Northcountry next year is $15,918, what is its annual growth rate?
8. Imagine a kitchen. It contains a cook, the cook’s diploma, a recipe book, a stove, utensils, and some venison harvested from the open range.
   1. Link each item/object in the kitchen to a general category within the factors of production.
   2. While the different factors of production exhibit different levels of durability which one is special in that it does not wear out?
9. Consider the following:
   1. List policies that government might pursue to increase the productivity of their citizens.
   2. Which one is, at the very least, fundamentally necessary as a background in which the other policies may operate? Why?
   3. Does a growing population enhance or inhibit growth in productivity? Explain?
10. Economists measure both the level of real GDP per person and the growth rate of real GDP per person. What different concept does each statistic capture?
11. Must poor countries stay poor forever and must rich countries stay rich forever? Why or why not?
12. What factors determine productivity? Which ones are human produced?
13. How does human capital differ from physical capital?
14. Why does an increase in the rate of saving and investment only increase the rate of growth temporarily?
15. If foreigners buy newly issues stock in Ford, and Ford uses the proceeds to expand capacity by building new plants and equipment, which will rise more in the future: GDP or GNP? Why? What would we call this types of investment?
16. Some economists argue for lengthening patent protection while some economists argue for shortening it. Why might patents increase productivity? Why might they decrease productivity?

Part 3 – True or False

33.\_\_\_\_\_\_\_The United States should grow faster than Japan because the United States has a larger economy?

34.\_\_\_\_\_\_\_Evidence of raising prices for natural resources demonstrates that nonrenewable resources will become so scarce that economic growth will be limited.

35.\_\_\_\_\_\_\_The rate of economic growth is probably underestimated.

36.\_\_\_\_\_\_\_Human capital refers to human made capital such as tools and machinery as opposed to natural capital such as rivers and timber.

37.\_\_\_\_\_\_\_If production function exhibits constant returns to scale, then doubling all of the inputs doubles outputs.

38.\_\_\_\_\_\_\_In very poor countries, paying parents to send their children to school may increase the education of poor children and decrease the use of child labor.

39.\_\_\_\_\_\_\_An increase in capital should cause the growth rate of a relatively poor country to increase more than that of a rich country.

40.\_\_\_\_\_\_\_An increase in the rate of savings and investment permanently increase a country’s rate of growth.

41.\_\_\_\_\_\_\_A country can only increase its level of investment by increasing its savings.

42.\_\_\_\_\_\_\_The only factor of production that is not produced is natural resources.

43.\_\_\_\_\_\_\_Investment in human capital and technology may be particularly productive because of positive spillover effects.

44.\_\_\_\_\_\_\_If Germans invest in the US economy by building a new Mercedes factory, in the future US GDP will rise more than US GNP.

45.\_\_\_\_\_\_\_Most economists believe that inward oriented policies that protect infant industries improve the growth rate of developing nations.

46.\_\_\_\_\_\_\_Economic evidence supports the predictions of Thomas Malthus regarding the effects of population growth and the food supply on the standard of living.

47.\_\_\_\_\_\_\_The opportunity cost of additional growth is that someone must forego current consumption.

Part 4 – Additional critical thinking

48. You are having a discussion with other people from the “millennial” generation. The conversation turns to a supposed lack of growth and opportunity in the United States when compared to some Asian nations such as Japan, South Korea, Taiwan, China, and Singapore. Your roommate says “These Asian countries must have cheated somehow. That’s the only way that they could have grown so quickly.”

a. Have you learned anything in this chapter that would make you question your roommate’s assertion?

b. The very high growth rate of Japan since World War II has often been referred to as the “Japanese miracle”. Is it actually a miracle or can it be explained?

c. Are the high growth rates found in these Asian countries without cost?