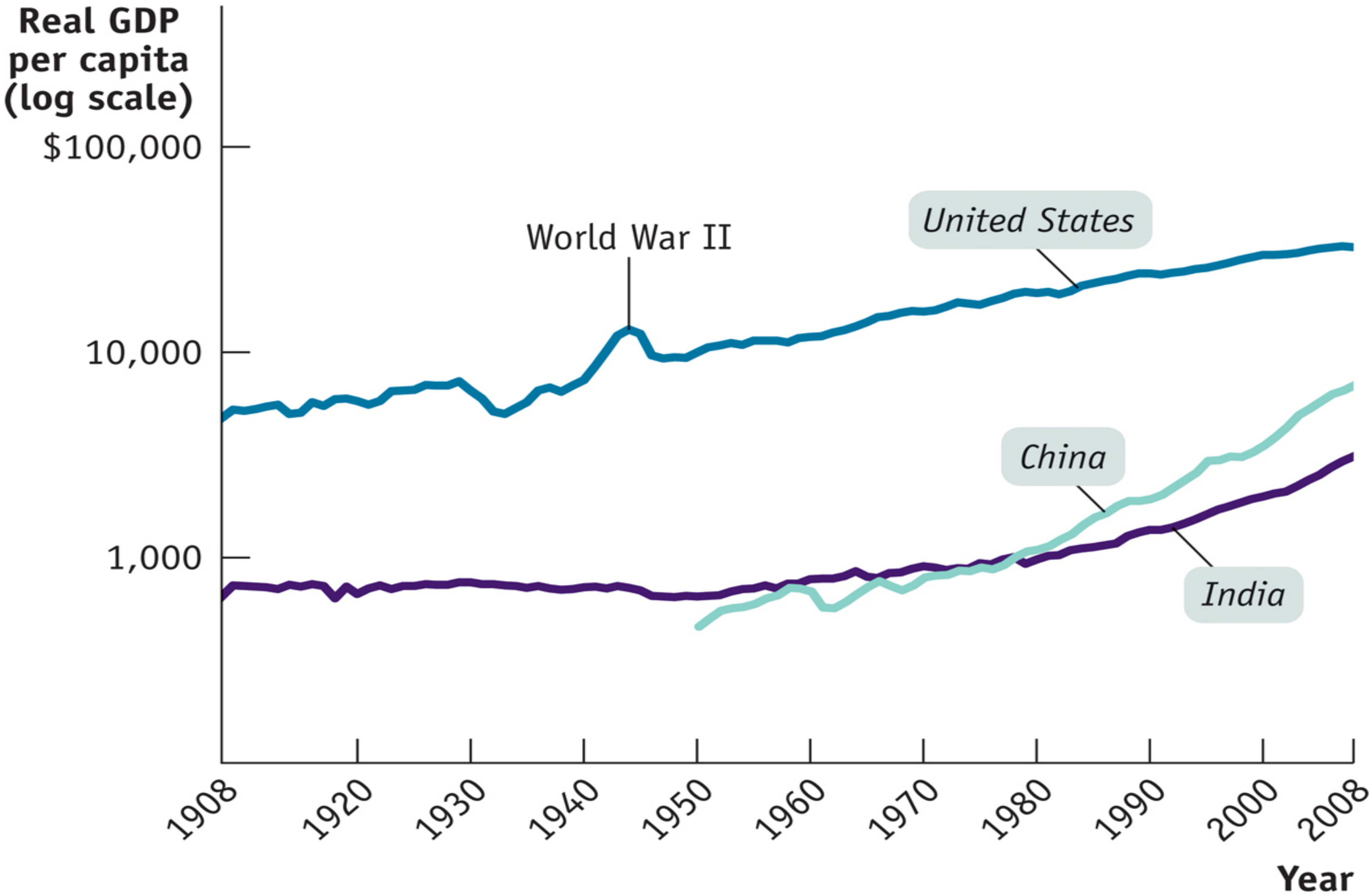
17 Sources of Long-Run Economic Growth

MODULE 17

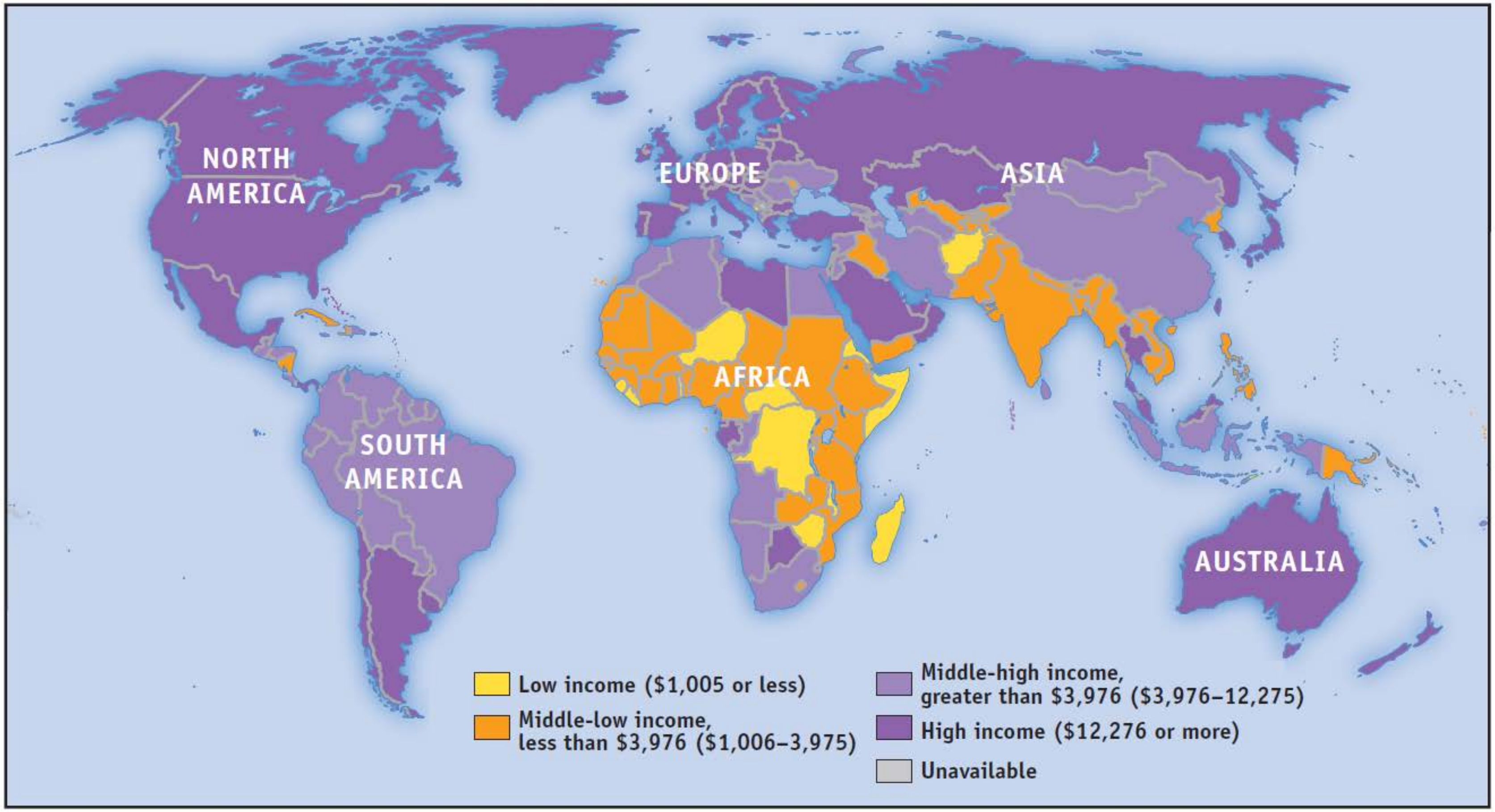
Comparing Economies Across Time and Space: Real GDP per Capita



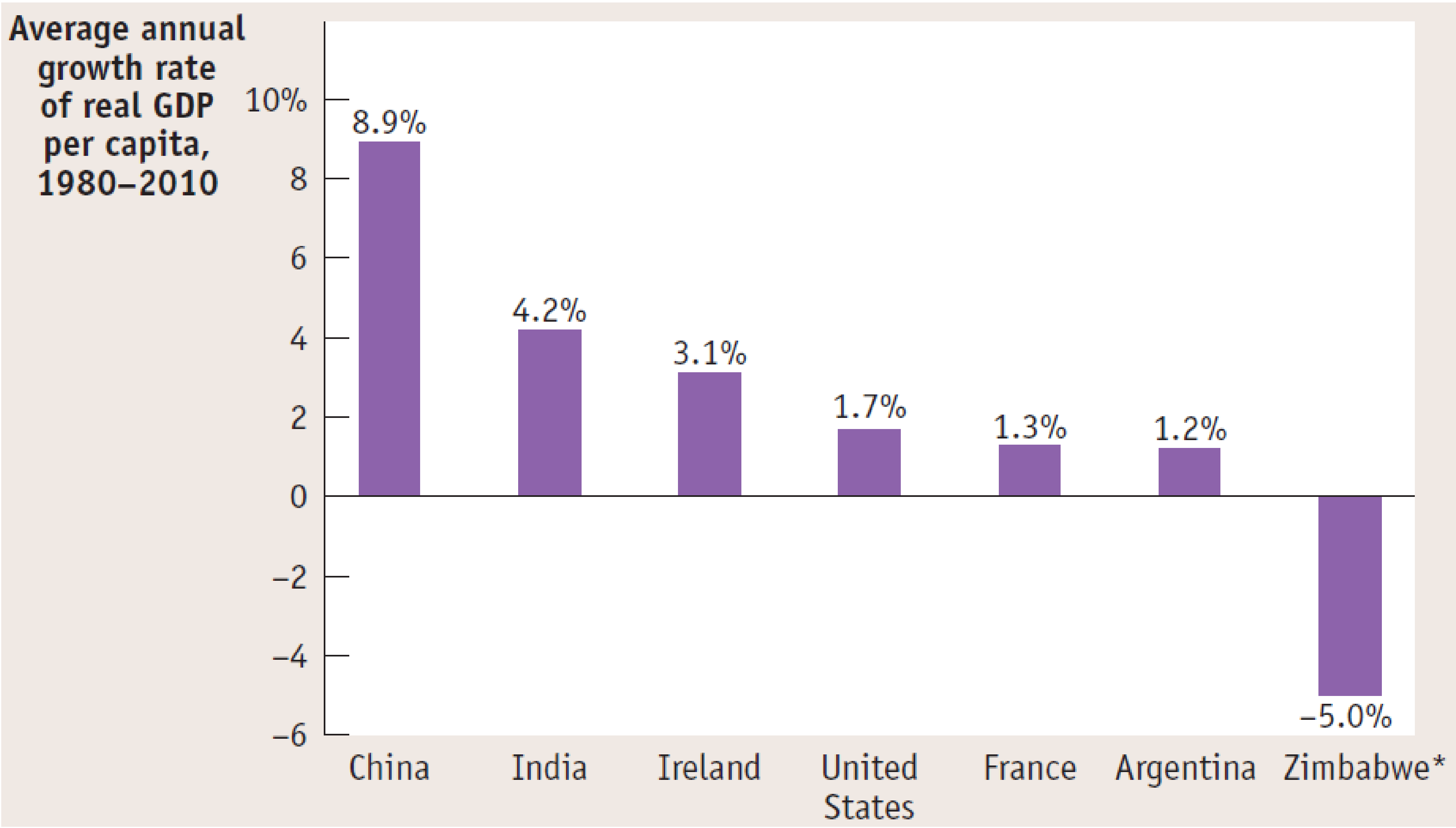
U.S. Real GDP per Capita

Year	Percentage of 1900 real GDP per capita	Percentage of 2010 real GDP per capita
1900	100%	13%
1920	136	18
1940	171	23
1980	454	61
2000	701	94
2010	745	100

Income Around the World, 2008



Cross-Country Economic Growth Rates



Economic Growth Rates

- How did the U.S. manage to produce over six times more per person in 2010 than in 1900?
- A little bit at a time.
- From 1908 to 2008, real GDP per capita in the United States increased an average of 1.9% each year.
- The **Rule of 70** tells us how long it take a slow-growing variable to double:

$$\text{Number of years for variable to double} = \frac{70}{\text{Annual growth rate of variable}}$$

What are the Sources of Economic Growth?

- **Labor productivity,** often referred to simply as **productivity,** is output per worker.
- **Physical capital** consists of human-made resources such as buildings and machines.
- **Human capital** is the improvement in labor created by the education and knowledge embodied in the workforce.
- **Technology** is the technical means for the production of goods and services.
- **Institutions**, such as protection of property rights, law enforcement, efficient bureaucracies, etc.