

Topics in Growth Economics

Topics in Growth Economics

- Capital and Technology
- Democracy and Economic Freedom
- Income Equality and Economic Freedom
- Human Capital
- Population and Economic Growth
- Free Trade, Globalization, and Growth

Capital and Technology

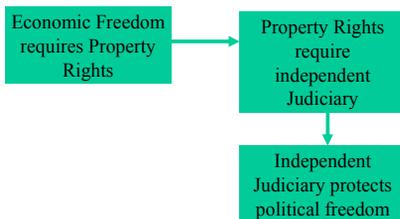
$$\text{Real Income per worker} = A(K/L)^{1/3}$$

- Doesn't new technology require more capital?
- Suppose Miller's Pizzeria wants to build a new oven. Doesn't it require capital?
- New technology will attract new capital.

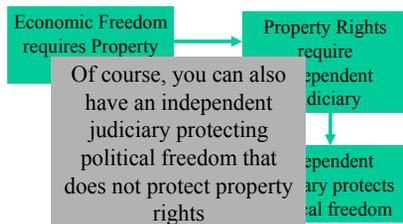
Democracy and Economic Freedom

- Rich nations are universally democracies
- The poorest nations universally have repressive regimes.
- In between, the pattern is mixed.
- What is the relation?

One Possible Explanation



One Possible Explanation



Conclusion

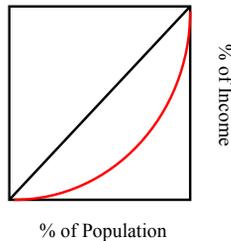
- This is an unsettled area.

Conclusion

- Evidence seems to support view that economic freedom leads to political freedom.
- Examples: Taiwan, Korea
- Test Case: China

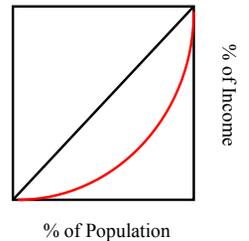
Economic Freedom and Income Equality

- The Lorenz Curve allows us to measure the distribution of income.



Economic Freedom and Income Equality

- The Lorenz Curve allows us to measure the distribution of income.
- What is the relation between economic freedom and the Lorenz Curve?



Two Effects

- Economic Freedom means that some people will prosper from innovation. (e.g, Bill Gates)

Two Effects

- Economic Freedom means that some people will prosper from innovation. (e.g, Bill Gates)
- Thus an unequal distribution of income

Two Effects

- Economic Freedom means that some people will prosper from innovation. (e.g, Bill Gates)
- Thus an unequal distribution of income
- In many poor countries, the wealthy own monopolies which inhibit economic freedom.

Two Effects

- Economic Freedom means that some people will prosper from innovation. (e.g, Bill Gates)
- Thus an unequal distribution of income
- In many poor countries, the wealthy own monopolies which inhibit economic freedom.
- Eliminate the monopolies, get a more equal distribution of income, and economic growth.

Human Capital

- The skills and abilities we have.
- Includes both formal and informal education.
- Increasingly important
- Capital must have market value

Population and Economic Growth

- Rich nations have low rates of population growth.
- Poor nations have high rates of population growth.

Two Effects

- High incomes lead to low family size.
- Poor nations have recently reduced infant mortality.
 - There is a lag between reduction in infant mortality and reduction in births.

Free Trade, Globalization and Growth

- Does free trade make nations wealthier?
 - Yes, absolutely.
- Should we do more to help poor nations
 - Be careful of simply making huge development loans.

End

©2003 Charles W. Upton.
All rights reserved