In-class review questions:

*Economic Growth.*

1. The nation’s core economic problem remains slow growth in productivity—a condition that is worsened by its historically low rate of...
   a. Complete this sentence and explain the logic behind it.
   b. Explain why the former outlined problem is more troublesome in the long-run than the latter. How can each of them be addressed?

2. Although the Americans talked boldly about boosting investment, they mainly ducked the question of how to boost America’s low rate of _______, otherwise, to finance higher investment America would have to increase ________.
   a. Fill in the blanks.
   b. Explain why this strategy to promote growth, although effective in the short-run, is not valid in the long-run. Illustrate your answer by using the appropriate graphs.

3. During the 1960s the budget deficit in the USA absorbed about 2% of national domestic savings. By the 1970s it absorbed 19% and, by 1990 the figure was 58%.
   a. Explain how budget deficits accomplish this diversion.
   b. Describe the implications for economic growth of these statements. Illustrate with graphs.

4. The fertility rate in Europe is rapidly falling and that is raising concerns about the sustainability of its rate of long-term economic growth.
   a. Explain why this statement seems to contradict the common-held view on economic growth and why it is nonetheless true.
   b. Describe possible means to correct this negative trend on output growth.

5. The economic report stated: “Devoting a larger share of national output to investment would help restore rapid productivity growth and rising living standards.”
   a. Assume the economy is in its steady state equilibrium. Do you agree with the statement?
   b. Explain your answer using the appropriate graphs.