**Ch20 Economic Growth**

**Multiple Choice Questions**

**1.** During the last two centuries, the average rate of growth of GDP per capita in the leading industrialized countries has averaged about \_\_\_\_\_\_\_\_\_ per year.

A. 2%

B. 12%

C. 22%

D. 32%

Answer: A Reference:

Explanation:

Type: Multiple Choice

**2.** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a term which refers to the widespread use of power-driven machinery and the economic and social changes that resulted in the first half of the 1800s.

A. GDP per capita

B. The Industrial Revolution

C. The living standard

D. Investment and inventions

Answer: B Reference:

Explanation:

Type: Multiple Choice

**3.** To achieve a high standard of living, a nation should:

A. increase the tax deduction for child dependents.

B. promote economic growth.

C. use less capital and more labor in the production process.

D. increase welfare payments to the poor.

Answer: B Reference:

Explanation:

Type: Multiple Choice

**4.** In the long run, the most important source of increase in a nation's standard of living is a:

A. zero rate of population growth

B. high rate of economic growth.

C. high rate of consumption.

D. high rate of labor force growth.

Answer: B Reference:

Explanation:

Type: Multiple Choice

**5.** In macroeconomics, the connection from inputs to outputs for the entire economy is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

A. a production function

B. an aggregate production function

C. human capital

D. physical capital

Answer: B Reference:

Explanation:

Type: Multiple Choice

**6.** The value of what is produced per worker, or per hour worked, is called \_\_\_\_\_\_\_\_\_\_\_\_.

A. economic growth

B. human capital

C. productivity

D. GDP per capita

Answer: C Reference:

Explanation:

Type: Multiple Choice

**7.** When society has a higher level of capital per person, it is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

A. physical capital

B. human capital

C. capital deepening

D. technological gains

Answer: C Reference:

Explanation:

Type: Multiple Choice

**8.** A nation can achieve higher economic growth if:

A. it devotes more resources to research and development.

B. the productivity of labor declines

C. taxes are imposed on investment in capital.

D. more resources are allocated to consumption goods.

Answer: A Reference:

Explanation:

Type: Multiple Choice

**9.** \_\_\_\_\_\_\_\_\_ is output per hour in the business sector.

A. Net exports

B. Productivity

C. Investment

D. GDP per capita

Answer: B Reference:

Explanation:

Type: Multiple Choice

**10.** Assuming a country's economy maintains an 8% rate of growth, young adults starting at age 20 would see the average standard of living in their country more than double by the time they had reached age \_\_\_\_\_\_\_\_\_\_.

A. 30

B. 40

C. 50

D. 60

Answer: A Reference:

Explanation:

Type: Multiple Choice

**11.** When discussing economic growth, it is often useful to focus on \_\_\_\_\_\_\_\_\_\_\_\_, to avoid studying changes in the size of GDP that represent only having more people in the economy, and focus on those increases in GDP which represent an actual rise in the standard of living on a per person basis.

A. economic growth

B. GDP per capita

C. living standards

D. consumption and expenditures

Answer: B Reference:

Explanation:

Type: Multiple Choice

**12.** Of the world’s population of 6.7 billion people, \_\_\_\_\_\_\_\_\_ are scraping by on incomes that average less than $2 per day.

A. 260 million

B. 2.6 billion

C. 5 billion

D. 6.2 billion

Answer: C Reference:

Explanation:

Type: Multiple Choice

**13.** Which of the following is correct?

A. An increase in the quantity of labor always leads to economic growth.

B. Increased education adds to the stock of human capital, not unlike building factories adds to the stock of physical capital.

C. A decrease in the productivity of labour leads to economic growth.

D. Third World countries are rich in human capital.

Answer: B Reference:

Explanation:

Type: Multiple Choice

**14.** Investment in human capital:

A. is of minor importance to economic growth.

B. can be acquired through on-the-job training.

C. is an important source of economic growth.

D. is characterized by both b) and c).

Answer: D Reference:

Explanation:

Type: Multiple Choice

**15.** Economists typically measure economic growth by tracking:

A. the employment rate.

B. the unemployment rate.

C. averaged GDP growth

D. real GDP per capita.

Answer: D Reference:

Explanation:

Type: Multiple Choice

**16.** Which of the following is most likely to contribute to economic growth as measured by GDP per capita?

A. the imposition of tariffs and quotas on imported goods

B. increased capital formation

C. rapid population growth

D. an increase in marginal tax rates

Answer: B Reference:

Explanation:

Type: Multiple Choice

**17.** To achieve a high standard of living, a nation should:

A. increase welfare payments to the poor.

B. use less capital and more labor in the production process.

C. promote economic growth.

D. increase the tax deduction for child dependents.

Answer: C Reference:

Explanation:

Type: Multiple Choice

**18.** Country Alpha and Country Beta initially have the same real GDP per capita. Country Alpha experiences no economic growth, while Country Beta grows at a sustained rate of 5 percent. In 14 years, Country Alpha's GDP will be approximately \_\_\_\_\_\_\_\_\_ that of Country Beta.

A. one-fourth

B. one-half

C. double

D. triple

Answer: B Reference:

Explanation:

Type: Multiple Choice

**19.** Country Able and Country Baker initially have the same real GDP per capita. Country Able experiences no economic growth, while Country Baker grows at a sustained rate of 7 percent. In 12 years, Country Baker's GDP will be approximately \_\_\_\_\_\_\_\_\_\_\_ that of Country Able.

A. triple

B. double

C. one-half

D. one-fourth

Answer: B Reference:

Explanation:

Type: Multiple Choice

**20.** In the long run, the most important source of increase in a nation's standard of living is a:

A. zero rate of population growth.

B. high rate of economic growth.

C. high rate of consumption.

D. high rate of labor force growth.

Answer: B Reference:

Explanation:

Type: Multiple Choice

**21.** Which of the government policies below is most unlikely to encourage per capita economic growth?

A. high taxes on companies that spend a lot on capital formation

B. the use of tax revenues for investment and capital formation

C. special subsidies for capital-intensive forms of production

D. promotion of education and training programs for workers

Answer: A Reference:

Explanation:

Type: Multiple Choice

**22.** Over the long run, \_\_\_\_\_\_\_\_\_\_\_\_ per hour is the most important determinant of the average wage level in any economy.

A. demand

B. dollars

C. productivity

D. supply

Answer: C Reference:

Explanation:

Type: Multiple Choice

**23.** Increased investment alone will guarantee economic growth.

A. This is a true statement, because growth occurs only with savings.

B. This is a true statement, because money is the only resource needed for growth.

C. This is a false statement, because an economy must rely on capital injections from abroad.

D. This is a false statement, because economic growth hinges on the quality and type of investment as well as the human capital and improvements in technology.

Answer: D Reference:

Explanation:

Type: Multiple Choice

**24.** A nation can achieve higher economic growth if:

A. more resources are allocated to consumption goods.

B. taxes are imposed on investment in capital.

C. the productivity of labor declines.

D. it devotes more resources to research and development.

Answer: D Reference:

Explanation:

Type: Multiple Choice

**25.** Which of the following best describes the relationship between economic growth and literacy?

A. As the economy grows, literacy declines because it becomes less and less useful in a developed economy.

B. Increased literacy initially stimulates economic growth by raising labor productivity, but as the economy grows and the opportunity cost of education rises, literacy declines.

C. Increased literacy stimulates economic growth by raising labor productivity, and as the economy grows, people consume more education.

D. There is no correlation between economic growth and literacy.

Answer: C Reference:

Explanation:

Type: Multiple Choice

**26.** \_\_\_\_\_\_\_\_\_\_\_\_ is a term which refers to the widespread use of power-driven machinery and the economic and social changes that resulted in the first half of the 1800s.

A. Technology

B. Living standard

C. Industrial Revolution

D. Capital deepening

Answer: C Reference:

Explanation:

Type: Multiple Choice

**27.** Which of the following is unlikely to affect the rate of economic growth?

A. the quality of available resources

B. the quantity of available resources

C. the level of government spending

D. technological change

Answer: C Reference:

Explanation:

Type: Multiple Choice

**28.** Which of the following did not result in economic growth?

A. Installing a network of irrigation ditches and pumping stations in order to grow fruits and vegetables in parts of southern California.

B. The invention of a threshing machine for harvesting grains.

C. Increased government funding of post-secondary education.

D. Many citizens emigrating from Zimbabwe when a politically repressive regime took office.

Answer: D Reference:

Explanation:

Type: Multiple Choice

**29.** A country will roughly double its GDP in twenty years if its annual growth rate is:

A. 12 percent.

B. 7.5 percent.

C. 3.5 percent.

D. 2.5 percent.

Answer: C Reference:

Explanation:

Type: Multiple Choice

**30.** Which of the following factors contribute to economic growth?

A. an increase in the average wage rate paid to workers

B. an increase in the standard of living

C. a decrease in the productivity of labor

D. an increase in the proportion of the population that is college educated

Answer: D Reference:

Explanation:

Type: Multiple Choice

**31.** Since the late 1950s, economists have performed “growth accounting” studies in the United States. These have determined that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is typically the most important contributor to U.S. economic growth.

A. human capital

B. physical capital

C. technology

D. a market orientation

Answer: C Reference:

Explanation:

Type: Multiple Choice

**32.** Which of the following factors contribute to economic growth?

A. a decrease in the quantity of labor due to emigration

B. a decrease in the productivity of labor

C. the discovery of new oil reserves

D. a decline in the stock of physical capital

Answer: C Reference:

Explanation:

Type: Multiple Choice

**33.** Some recent economic research has suggested that African countries' economic growth may have been limited by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

A. population

B. geography and climate

C. government interventionism

D. technological challenges

Answer: B Reference:

Explanation:

Type: Multiple Choice

**34.** Some prominent members of the slow-economic growth country club include a high-income country like \_\_\_\_\_\_\_\_\_.

A. Somalia

B. Germany

C. Bolivia

D. Nigeria

Answer: B Reference:

Explanation:

Type: Multiple Choice

**35.** A nation's prosperity is sometimes measured in terms of \_\_\_\_\_\_\_\_\_\_\_.

A. GNP

B. GDP

C. GDP per capita

D. economic output

Answer: C Reference:

Explanation:

Type: Multiple Choice

**36.** In certain African countries like Niger, Tanzania, Nigeria, and Sudan, for example, GDP per capita at the start of the 2000s was still less than $\_\_\_\_\_\_\_\_\_\_\_.

A. 30

B. 300

C. 3000

D. 30,000

Answer: B Reference:

Explanation:

Type: Multiple Choice

**37.** An economy’s rate of productivity growth is closely linked to the growth rate of its \_\_\_\_\_\_\_\_\_\_\_\_\_\_, although the two aren’t identical.

A. GNP

B. output

C. GDP per capita

D. technology

Answer: C Reference:

Explanation:

Type: Multiple Choice

**38.** In the early 2000s, the illiteracy rate for girls between the ages of 15 and 24 was \_\_\_\_\_\_\_\_\_\_ and the illiteracy rate for males in this age group was \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

A. 78%; 75%

B. 80%; 83%

C. 67%; 70%

D. 72%; 69%

Answer: A Reference:

Explanation:

Type: Multiple Choice

**Essay Questions**

**1.** What are some factors that would enhance human capital deepening?

Reference:

Explanation: The proportion of the U.S. population with a high school and a college degree is rising. As recently as 1970, for example, only about half of U.S. adults had at least a high school degree; by the start of the twenty-first century, more than 80% of adults had a high school degree. The idea of human capital deepening also applies to the years of experience that workers have, but the average experience level of U.S. workers hasn’t changed much in recent decades. Thus, the key dimension for deepening human capital in the U.S. economy focuses more on additional education and training than on a higher average level of work experience.

Type: Essay

**2.** An economy starts off with a per capita GDP of 16,000 euros. How large will the per capita GDP be if it grows at an annual rate of 3% for 10 years? 3% for 30 years? 6% for 30 years?

Reference:

Explanation: $21,502

$38,836

$91,896

Type: Essay

**3.** Say that the average worker in Canada has productivity of $33 per hour while the average worker in the United Kingdom has productivity of $29 per hour (both measured in U.S. dollars). Over the next six years, say that worker productivity in Canada grows at 1% per year while worker productivity in the UK grows 3% per year. At that point, who will have the higher productivity level, and by how much?

Reference:

Explanation: Canada = $35.03

UK = $34.62

Type: Essay

**4.** Some low-income countries and middle-income countries around the world have shown a pattern of economic convergence with high-income countries. What is this? Illustrate with an example.

Reference:

Explanation: Their economies grows faster than those of high-income countries. From 1990–2005, GDP increased by an average rate of 2.7% per year in the 1990s and 2.3% per year from 2000–2008 in the high-income countries of the world, which includes the United States, Canada, the countries of the European Union, Japan, Australia and New Zealand.

Exhibit 22-7 lists 10 countries of the world which belong to an informal “fast growth club:” specifically, these countries averaged GDP growth (after adjusting for inflation) of at least 5% per year in both the time periods from 1990–2000 and from 2000–2008. Since economic growth in these countries has been exceeding the average of the world’s high-income economies, the economies of these countries have been converging with the high-income countries.

Type: Essay

**5.** Several arguments suggest that low-income countries might have an advantage achieving greater worker productivity and economic growth in the future. Offer two such arguments and discuss their relevance.

Reference:

Explanation: A first argument is based on diminishing marginal returns. Even though deepening human and physical capital will tend to increase per capita GDP, the law of diminishing returns suggests that as an economy continues to increase its human and physical capital, the marginal gains to economic growth will diminish. A second argument is that low-income countries may find it easier to improve their technologies than high-income countries. Thirdly and finally, optimists argue that many countries have observed the experience of those countries that have grown more quickly and have learned from it. Moreover, once the people of a country begin to enjoy the benefits of an increased standard of living, they may be more likely to build and support the market-friendly institutions that will help provide this standard of living.

Type: Essay

**6.** What are the three main sources for economic growth in any economy?

Reference:

Explanation: Technology, human capital, and physical capital

Type: Essay

**7.** Since the late 1950s, economists have performed “growth accounting” studies for countries' economies. What is the focus of these studies?

Reference:

Explanation: To calculate what specific portion of economic growth is accounted for by deepening of physical capital, deepening of human capital, and technology.

Type: Essay

**8.** How can increased investment help a country achieve increased economic growth? What are the costs involved?

Reference:

Explanation: A country that invests substantially in human and physical capital will be able to produce a greater quantity of goods and services in future periods, experiencing a higher standard of living as a result. Countries that tend to grow most rapidly are those that devote a larger share of available resources to producing capital goods instead of consumption goods.

Type: Essay

**9.** A general orientation toward markets doesn’t rule out some important roles for government in aiding a country's economic growth. List and discuss at least three significant contributions a government can make toward a country's economic growth.

Reference:

Explanation: Government often plays a role in setting up and funding the education system, especially at the primary and secondary level. Government regulations and taxes can favor savings and investment, or discourage it. Governments can administer laws in a fair and impartial way, or they can offer favoritism and patronage that encourages business to try to make money by lobbying government ministers, rather than by providing goods and services that consumers desire. Governments can encourage international trade, or surrender to protectionism. Governments can play a key role in overseeing the safety of banks and the financial system, in enforcing contracts, and in supporting infrastructure projects like roads and electricity generators. Governments can support scientific research and technical training that helps to create and spread new technologies, or not. Governments can protect the ability of inventors to profit from their inventions, or not. Governments also have a role to play in preventing the economy from sinking deep into recession or inflation, either of which can create a situation where individuals and firms are under such great stress from dismal macroeconomic conditions that they have little chance to plan the investments and discoveries that lead to economic growth.

Type: Essay

**10.** In a perfect world, the full recipe for growth in GDP per capita and worker productivity in any country would include which factors all cooperating together?

Reference:

Explanation: Human capital deepening, physical capital deepening, and technological gains, operating in a market-oriented economy with supportive government policies.

Type: Essay