

Chapter 25: Economic Growth

Why do the economies of some nations seem to grow significantly from year to year, while other nations struggle with ups and downs of economic performance, and still others seem to suffer with stagnant economies for long periods of time? Chapter 25 examines the causes of economic growth, as well as the costs and benefits of economic growth.

Economic growth is measured as a percentage increase in real GDP (or real GDP per capita) over time. Real GDP has increased by about 3.2% per year in the United States, though real GDP tends to fluctuate from quarter to quarter, undergoing systematic changes known as the business cycle. Economic growth is an important economic goal because it improves standards of living and reduces the problems of scarcity.

Factors central to promoting economic growth include strong property rights, patents and copyrights, efficient financial institutions, literacy and widespread education, free trade, and a competitive market system. Supply factors that directly relate to the rate of economic growth include increases in the quantity and quality of human and natural resources, increases in the stock of capital goods, and improvements in technology. In order to achieve maximum economic growth, production relies on productive and allocative efficiency.

Economic growth is illustrated by an outward shift of the production possibilities curve. Unemployment results from production at any point inside the curve, so policymakers seek solutions to unemployment, moving production to full employment on the curve. In the long run, advances in technology, increases in the quantity of capital, investment in human capital (education and training), achieving economies of scale, and improvements in resource allocation are central to improving labor productivity, a key component of economic growth.

Material from Chapter 25 is likely to appear in one or two multiple-choice questions and occasionally a free-response question on the AP Microeconomics and Macroeconomics Exams, specifically with reference to the production possibilities curve and the causes of economic growth. A clear understanding of the factors that promote economic growth is important.