Productivity and Growth

Productivity and Growth

- How can societies produce more when their natural resources are limited and not likely to increase?
- *In order for an economy to grow, it must increase its productivity.*
- It must produce more output (products) per each unit of resources they use, or their input
  - **Productivity = Output of products/Input of Resources**

Productivity and Growth

- Capital Investment – The key to economic growth is capital investment – using some of a company's profits to buy new machines and equipment.
  - To research and implement new technologies, and to improve the education of the workforce.

Productivity and Growth

- If a printing company has only one printing press, for example, it can double its production by investing in a second printing press. It can double its production by investing in a second printing press
- The company's costs will then be slightly higher, but the increase in production will be much greater, leading to increased productivity.

Productivity and Growth

- If the new printing press is faster and cheaper to operate, it represents an improvement in technology and will increase productivity even more.
- New technology often requires educated, highly skilled workers to operate it.
- If society has not invested in educational resources such as public schools, universities, and technical schools to improve its human capital, the new technology will be worthless.

Productivity and Growth

- Today, nations such as India and China have just begun this process of capital investment.
- Since they can invest in the latest technology already developed by Western societies, their economies are growing very rapidly

Economic Growth

- Remember, that growth on the Production Possibilities Curve is an outward shift to the right of the curve.