

Chapter 25

1.

Country	Current real GDP/person	Current Growth Rate
Northcountry	€15,468	1.98 %
Southcountry	13,690	2.03
Eastcountry	6,343	3.12
Westcountry	1,098	0.61

- a. Which country is richest? How do you know?
 - b. Which country is advancing most quickly? How do you know?
 - c. Which country would probably see the greatest benefit from an increase in capital investment? Why?
 - d. Referring to (c): Would this country continue to see the same degree of benefits from an increase in capital investment forever? Why?
 - e. Referring to (d): Why might investment in human capital and research and development fail to exhibit the same degree of diminishing returns as investment in physical capital?
 - f. Which country has the potential to grow most quickly? List some reasons why it may not be living up to potential.
 - g. If real GDP per person in Northcountry next year is \$15,918, what is its annual growth rate?
2. Imagine a kitchen. It contains a cook, the cook's diploma, a recipe book, a stove and utensils, and some rabbit meat harvested from the open countryside.
- a. Link each object in the kitchen to a general category within the factors of production.
 - b. While the different factors of production exhibit different levels of durability, which one is special in that it does not wear out?
3. a. List the policies governments might pursue to increase the productivity of their citizens.
- b. Which one is, at the very least, fundamentally necessary as a background in which the other policies may operate? Why?
 - c. Does a growing population enhance or inhibit growth in productivity? Explain.