Economic Growth – Review of Key Concepts

1. Economic growth is measured by changes in real gross domestic product or by changes in real GDP per capita.

2. Long run economic growth can be illustrated using a production possibilities curve or a long run aggregate supply curve. It is shown graphically as a rightward shift of the nation's long-run aggregate supply curve or a rightward shift of its production possibilities curve.

3. Long-run economic growth is concerned with increasing an economy's total productive capacity at full employment, also known as its natural rate of output. This output is represented by a vertical long-run aggregate supply curve.

4. The rate of economic growth depends largely on increasing productivity. Productivity affected by a variety of factors including investment in physical capital, increases in human capital, and technological progress.

5. Governments can promote economic growth by promoting productivity growth including:

    - Investing in physical capital (e.g., providing infrastructure – roads, bridges, power lines, information networks

    - Providing for the development of human capital (e.g., education and training)

    - Facilitating technological progress (e.g., research and development)

    - Providing political stability enforcing property rights, and providing the optimal amount of government intervention.