

EC213 Macroeconomics Semester II 1999/2000

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Questions for Tutorial 2

Long-run economic growth

The following will provide the basis for discussion at your second tutorial. For groups A–K, this will take place next week (Week 8), as originally planned.

Week 9 is a ‘teaching intermission’, so the tutorials for Groups L–V will have to be rescheduled (my timetabling error). I’ll advise you of the changes next week, and of the programme for your third tutorial, which will relate to the web project.

You are not required to submit or bring along sample answers to this tutorial, but you should at least make some attempt at each of the questions below, beforehand.

1. Carefully explain each of the key assumptions in the Solow Growth model, how steady-state equilibrium is arrived at, and what characterises such an equilibrium (for the full version of the model, including technological progress and population change). Use graphs/algebra where appropriate.
2. What would be the impact (a) of an increased rate of savings, and (b) an increased rate of population growth, in the full version of the Solow Growth model? (Take each separately.)
3. (a) “All Golden Rule equilibria are steady-states, but not all steady-states are Golden Rule equilibria.” Explain.
(b) Show graphically how we can identify the Golden Rule equilibrium.
(c) If an economy is not at a Golden Rule equilibrium, there is either too much saving, or too little. Policy makers face different policy choices depending on which situation applies. Explain.
4. The Solow Growth Model, although a key ‘benchmark’ model, is open to challenge on empirical grounds. What are those grounds, and which assumptions of the model might be modified to make it more empirically relevant?

NB: attendance at tutorials accounts for 5% of your marks in this course.