Factors that Lead to Economic Growth

Economic Growth

- There are *4* factors of production that influence economic growth within a country:
  - Investment in *human capital*
  - Investment in *capital goods*
  - *Natural resources* available
  - Entrepreneurship

- The presence or absence of these 4 factors determine the country's *Gross Domestic Product* for the year

What is Human Capital?

- All of the *skills*, talents, education, and *abilities* that human workers possess and the value that they bring to the marketplace
  - Examples: computer/*reading*/writing/*math skills*, talents in music/sports/acting, ability to follow *directions*, ability to serve as group leader & cooperate with group members
- A country's *literacy rate* impacts human capital. It means the *percent* of the population over 15 that can read/write.

How does Human Capital Influence Economic Growth?

- Nations that *invest* in the health, education, & training of their people will have a more valuable workforce that produces more *goods & services*

- People that have *training* are more likely to contribute to technological advances, which leads to finding better uses of *natural resources* & producing more goods

What are Capital Goods?

- All of the goods that are *produced* in the country and then used to make other goods & services
  - Examples: tools, *equipment*, factories, technology, *computers*, lumber, machinery, etc.
  - What are some capital goods used in our classroom?

How do Capital Goods influence Economic Growth?

- The more *capital goods* a country has the more goods & services they are able to produce

- Money is *NOT* a capital good, but rather a medium (way) of exchange!

What are Natural Resources?

- All of the things found in or on the earth; "*gifts of nature*"

- All resources are *limited*
- Examples: land, *water*, sun, plants, time, air, minerals, oil, etc.

How do Natural Resources Influence Economic Growth?

- Countries that have a lot of *natural resources* are able to use them to produce goods & services *cheaper* than a country that has to *import* natural resources

What is Entrepreneurship?

- Entrepreneurs have *2* characteristics that make them different from the rest of the labor force:
  - 1. *innovative* (have creative ideas)
  - 2. *risk taker* (use limited resources in an innovative way in hopes that people will buy the product)

What is Entrepreneurship?

It can be several things:

Starting your own business

Inventing something new

Changing the way something was previously done so that it works better

How does Entrepreneurship Influence Economic Growth?

- Entrepreneurship *creates* jobs and reduces unemployment
- Encourages people to take *risks* that creates better healthcare, education, & *welfare* programs
- The *more* entrepreneurs a country has, the *higher* the country's GDP will be.

How is Economic Growth Measured?

- Economic growth is *measured* by the country's gross domestic product (GDP)   in one year. This is the *total* amount of final goods and services produced in one year within a country

Gross Domestic Product

- GDP is a *measurement* that counts ONLY what has been produced *within* the country--this doesn't include products that are *imported*.

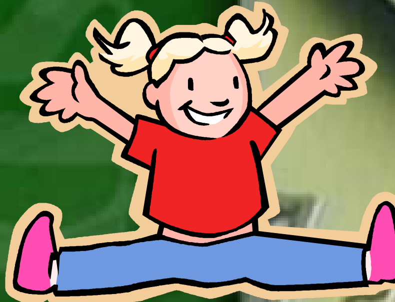
- It is much better for the *economy* of a country to produce its *own* goods and services (this increases the country's GDP).

Gross Domestic Product

- **Measuring the GDP each year can:**
  - ***Compare*** **one country's economy to another**
  - **Check a country's economic *progress* over time**
  - **Show if the economy is *growing* or not**

Standard of Living

- The *higher* a country's GDP = the *higher* the standard of living for the people within the country



- In order for a country to have an *increasing* GDP, it must *invest* in human capital through *education* & *training*, and it must produce goods that have *value* to be sold within the country or exported.

Summary

- To encourage economic growth and raise the living standards of its citizens, there must be investment in human capital and capital goods.
- Economic growth is measured by increases in real capital per GDP over time.

- **How large a nation's GDP can be is determined by the availability and quality of its natural, human, and capital resources.**

- **To increase economic growth and per capita GDP over time requires investments in both physical capital (factories, machines) and human capital (education, training, skills of labor force).**