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?

Capital Resources

Things that humans made in order to help them make something else

Items such as machines, factories, technology and supplies.

- Hammers, Saws, Glue and tools are some examples of capital goods
- Example: tree + steel = axe
- Tree and steel are natural resources but they were changed into a capital resource as an axe

Capital Resources: Factories

- Factory: A building where things are made.
- Some factories include:
  - Bic (where they make pens and pencils)
  - Starkist (where they make cans of Tuna).
  - Honda (where they make cars)

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.

Natural Resources

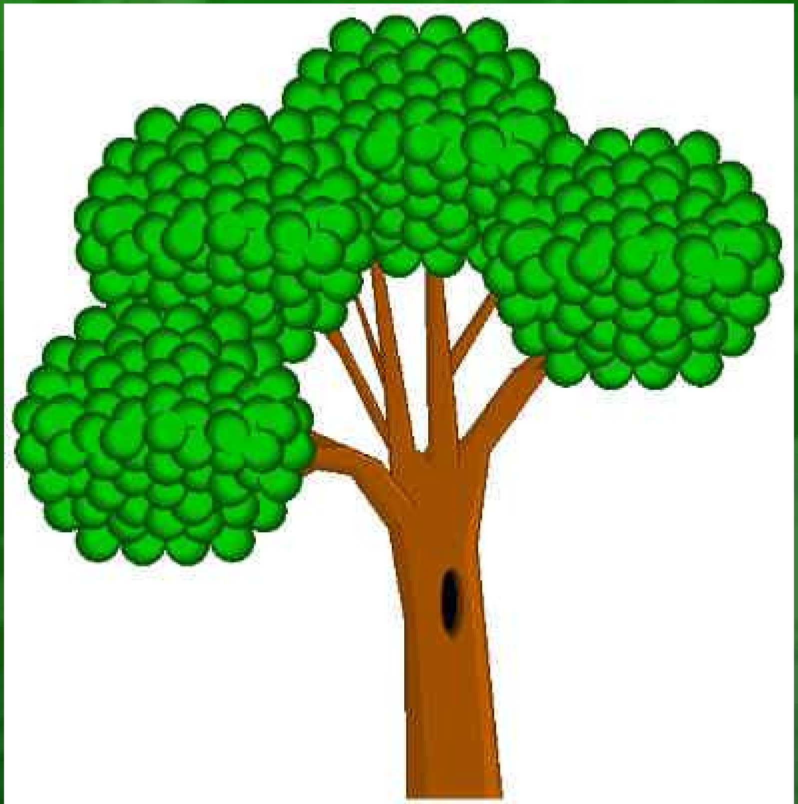
- Natural resources are substances we obtain from the land, water, air around us and the land itself.
  - Items that grow or are produced by NATURE

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

Natural Resources Before and After

Natural Resource



Finished Product

Write down what natural, labor and capital resources does it take to make a house

Resources needed

- Natural:
  - Water
  - Wood
  - Land
- Capital
  - Nails
  - Glass
  - Cement
  - Pipes
  - Bricks
  - Hammer
  - Power Tools
- Labor (Jobs)
  - Plumber
  - Design the house
  - Electrician
  - Carpenter
  - Painter

Items needed to make a car

Natural Resources

- Land, Wood, Leather, Steel (frame of the car), Petroleum, Rubber
- **Capital Resources**
- Machines, Plastic, Glass, Mirrors, lights (bulb), factory
- **Labor**
- At least high school graduates (assembly line) put the car together, paint
- College graduates: manager, marketing, accountant. Engineers, scientists,

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:

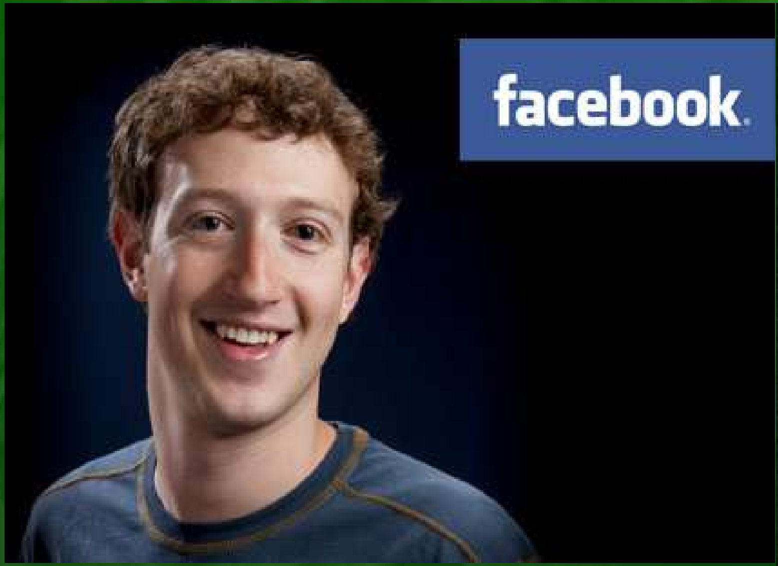
Starting your own business

Inventing something new

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

Entrepreneur

- Entrepreneur: An individual in business who sees an opportunity and is willing to accept the personal, professional, and financial risks in starting this business



More about Entrepreneurs

What Risk?

- Financial: an entrepreneur may lose their money when starting a business
- Personal: starting a business is stressful and takes many hours to start, so you may not see your family and friends as much
- Professional: a person may be known as a pretty good cook in town, so they start a restaurant. If the restaurant fails then people may think that person is a bad cook.

Entrepreneurs

- An entrepreneur puts the natural, human, and capital resources together in order to make money but they take on a lot of risk.
- An entrepreneur operates in an mixed economy

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 countsONLY 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).

Factors of Production or Productive Resources

- Land or Natural Resources
  - **"Items from the Earth" Examples: Land, Air, Water, Gold, Natural Gas, Oil**
- Labor or Human Resources
  - **People who make a good or provide a service**
- Capital Resources
  - A tool or machine that helps to make a good or provide a service Example: building/factory, hammer
- Entrepreneur
  - **A person who takes a lot of risk and uses the other 3 factors in order to make a profit Examples: Bill Gates, Hannah Montana**