5. The growth accounting equation is (Y is aggregate GDP in real terms):



Growth rates of K (capital) and N (labor) are weighted by their respective income shares, so that each input contributes an amount equal to the product of the input’s growth rate and their share of income to output growth. The  indicates the change in the variable.

 Growth Accounting Equation In Per Capita Terms:

1. The steady state equilibrium for the economy is the combination of per capita GDP and per capita capital (k) where the economy will remain at rest, or where per capita economic variables are no longer changing OR

 

1. Explain why, in the Neoclassical growth model, an increase in the savings rate does not increase the growth rate of per capita output in the long run.
2. Explain why:
(1) An increase in the rate of growth of the population, n, reduces the steady state level of k and y

(2) An increase in n increases the steady state rate of growth of aggregate output

and
(1) A decrease in n increases the steady state level of k and y

(2) A decrease in n decreases the steady state rate of growth of aggregate output.