[Academic Script]
[Economics Growth (Part III)]

Subject:	Business Economics
Course:	B.A., 4th Semester, Undergraduate
Paper No. & Title:	Paper – 401 Macroeconomics-II
Unit No. & Title:	Unit - 4 Economics Growth
Lecture No. & Title:	3: Economics Growth (Part III)

Frequently Asked Questions

1. **What is Endogenous growth theory?**

   Endogenous growth can be defined as the notion that policies, internal processes and investment capital, rather than external factors, are chiefly responsible for economic growth.

2. **Explain the impact of increase in Government Savings.**

   Increase in Government savings helps the economy to reduce its deficits. It results, change in incident of taxes levied by government, reduction in money supply, and hence aggregate demand falls.

3. **State the two exogenous variables on which Solow Model is based on:**

The Solow Model is based on following two exogenous variables:

- the rate of population growth *and*
- the rate of technological progress

4. **State three criticisms of Endogenous Growth Theory.**

Critics of Endogenous Growth theory can be listed as

1. In the new growth theory because increasing returns and endogeneity of variables have been taken from the neoclassical and Kaldor's models.
2. The new growth theory for depending only on the production function and the steady state.
3. The new growth theory lays too much emphasis on the role of human capital and neglects the role of institutions.

5. **State five assumptions of Romer Model.**

The Romer model is based on the following assumptions:

1. Economic growth comes from technological change.
2. Technological change is endogenous.
3. Market incentives play an important role in making technological changes available to the economy.
4. Invention of a new design requires a specified amount of human capital.
5. The aggregate supply of human capital is fixed.

6. **State the economists who contributed to Endogenous Growth Theory.**

The three main contributors to Endogenous Growth Theory are Arrow, Romer and Lucas.

7. **Name the two exogenous variables of Solow Model.**

The Solow model explains the long-run growth rate of output based on two exogenous variables: that are

1. **the rate of population growth** *and*
2. **the rate of technological progress**

8. **State the three main assumption of Endogenous growth theory.**

The new growth theories are based on Some assumptions:

1. There are ***many firms*** in a market.
2. Knowledge or technological advance is a ***non-rivalry***.
3. There are ***increasing returns to scale*** to all factors taken together, whereas ***constant returns to scale*** if single factor is applied.

9. **State the difference between Arrow and Romer Model.**

In Romer’s model it is assumed that endogenous growth is presented as a variant on Arrow’s model which is known as learning by investment. He assumes creation of knowledge as a side product of investment. He takes knowledge as an input in the production function

10. State the three ways in which knowledge enters the production function.

Romer describes that new knowledge enters into the production process in three ways.

- ***First,*** a new design is used in the intermediate goods sector for the production of a new intermediate input.
- ***Second,*** in the final sector, labour, human capital and available producer durables produce the final product.
- ***Third,*** and a new design increases the total stock of knowledge which increases the productivity of human capital employed in the research sector.