[Summary]

SOLOW MODEL

Subject:	Business Economics
Course:	B. A. (Hons.), 6th Semester, Undergraduate
Paper No. & Title:	Paper – 641 Elective PaperE2 – Economic Growth and Policy
Unit No. & Title:	Unit – 2 Growth Model
Lecture No. & Title:	Lecture – 2 SOLOW MODEL

Summary

Let us summarize that technical change may be embodied or disembodied. Growth can be exogenous or endogenous. Solow model of growth explains that long term growth occurs because of technological progress. Technological progress is exogenous and disembodied in this model. This model is an extension of the Harrod-Domar model.

In the Solow model, any increase in Quantity produced could come from one of the three sources as:

1. An increase in Labour - 'L', which is subject to diminishing returns to scale which imply a reduction in the Output to Labour ratio **(**or output per worker).

2. An increase in capital. An increase in the **stock of capital** would increase both output and **the** Output to Labour ratio **as capital helps to improve labour productivity.**

3. An increase in technology (A) could also increase Output per worker.

If capital per capita is increased then output increases and growth rate rises. But, population increase drags down the availability of capital per capita and hence growth is dragged down. Hence, in long term growth process, technological progress plays an important role, besides growth of capital.