

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

We will not be covering the Harrod-Domar Growth Model. However, we will be studying the basics of the Solow Growth Model. (Note that it starts before the Harrod-Domar Growth Model.) I will explain the assumptions and the conclusions. You will not need to know how they get the conclusions, but understand why the conclusions make sense. (Those models are too tough for this level course.) I will go into more detail in the review sheet that will be on the web, once the web page address gets assigned.

1) (15 points each) For each part, explain whether that will increase or decrease the growth of GDP per capita.

- A) The savings rate increases.
- B) The growth rate of population increases.
- C) There is a larger initial GDP.
- D) There is a more secure government.
- E) Life expectancy increases.

2) (25 points) What is the reason that the Solow Growth Model imply that poor and rich economies will tend towards have converging economies? Why don't we normally see that?