Underlying trend rate of growth

Economics, Macroeconomics

Explain the term ‘ underlying trend rate of growth’ and the factors determining this rate. The underlying trend rate of growth represents a curve which shows the annual potential growth maximum that can be achieved with all available resources. An economy must target to increase this rate of growth and also actualize it. If the economy grows higher than this rate it will experience inflation. If lower it still has the capacity to grow. The trend rate of growth for an economy also represents the aggregate supply in the long run. The production possibility frontier also represents virtually more or less the same thing. There are various factors that determine long run aggregate supply. One considerable factor is the level of investment in an economy. Investment is vital as it is the back bone of economy. It enhances an economy by building more facilities and providing infrastructure to further develop and produce more, both in terms of quality and quantity. The higher the level of investment the higher the increase in capacity terms what an economy is able to produce. This is the growth that is in the nation’s stock of capital. New capital embodies technological advancements which leads to higher levels of productivity. The trend rate of growth is also determined by the trend growth of the working population of an economy. This is the trend of supply in the labour market. When the size of the working population increases it increases the potential working capacity of the economy. The magnitude of change in production output will reflect upon the level of labour/capital intensiveness in the economy. If the government can successfully increase the number of people of working age the trend rate of growth will increase. The trend rate of growth of factor productivity is a measure of gains in factor efficiency. For most countries it is the annual rate of growth of productivity that drives the long-term rate of economic growth. But of more interest and importance is where gains in productivity come from. The macroeconomic data on productivity is simply the aggregation of productivity performance at a microeconomic level throughout every industry and market in the economy. Technological improvements which reduce the real costs of supplying goods and services and which lead to an outward shift in a country’s production possibility frontier