

Productivity and economic growth

[Economics](#)



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Technological advancement has been realized in almost all areas of production. In the US the increased use of computers has led to solid growth of productivity. Productivity is the most valuable statistic used to determine the overall economic welfare of a country. Growth in productivity indicates that there is improvement in the living standards of the citizens and also more job opportunities in the job market.

Due to this effect, the contribution of computers in the US productivity is expected to increase in the near future. This is due to the fact that most citizens and especially those living below the poverty line would like to enjoy equal health standards as well as living standards with the rich. (Chiarella & Flaschel, 2000).

In the circular flow diagram, economy is divided into two parts. The first one deals with production of goods as well as services while the second part deals with their consumption. Circular flow diagram is used by the economics to determine economic growth. Leakages from the circular flow diagram is the income not spend on goods that are domestically produced. Examples of leakages include savings, imports and taxes. Injections into the circular flow diagram are the expenditures that are added to the expenditure on the circular flow. Examples of injections include investment, exports and government exports.

When the circular flow is at equilibrium, the leakages from the circular flow equal the injections into the circular flow (Chiarella & Flaschel, 2000). The circular flow therefore remains the same in size. However, if the injections into the circular flow exceed the leakages from the circular flow, then

economic prosperity is witnessed while if the leakages exceed the injections then there is a recession in the economy growth.

Technological change in certain industries can lead to unemployment. For instance, introduction of computers and networking in banking industry can lead to loss of jobs by many tellers and cashiers. Change in technology can cause reduction in the number of workers needed with specific skills.

Another example is of car industry where car workers can lose jobs with introduction of robots.

This leads to unemployment which is specifically known as technological unemployment. (Chiarella & Flaschel, 2000). Change in technology can lead to increase in the rate of employment through increasing productivity.

Increase in productivity creates a stable economy and more job opportunities where people can secure jobs.

China is ranked in the fourth position in the world's economy while US takes the lead. Japan and Germany follow in the second and third positions respectively. (<http://www.chinadaily.com>). However, due to China's changes in exchange rates, it is believed that China is likely to become the world's third economy, hence surpassing Germany. Technological advances have contributed to an increase of about 11.4% of China's GDP and about 18.5% industrial output rate.

Increased productivity has however led to a slight rise in the degree of unemployment in China since it has contributed to fast technology advancement. Most industries do not need human labor but use only skilled labor. There are fears that the US economy may undergo recession due to <https://assignbuster.com/productivity-and-economic-growth/>

numerous crisis and house slump that it is experiencing. If this trend of economic growth continues in China, then the China's economy may even surpass the US economy in the near future (<http://www.chinadaily.com>).

References.

Chiarella C. & Flaschel P. (2000). *The Dynamics of Keynesian Monetary Growth: Macro Foundations*. Cambridge University Press.