Discussion handout 5 – Answer Keys

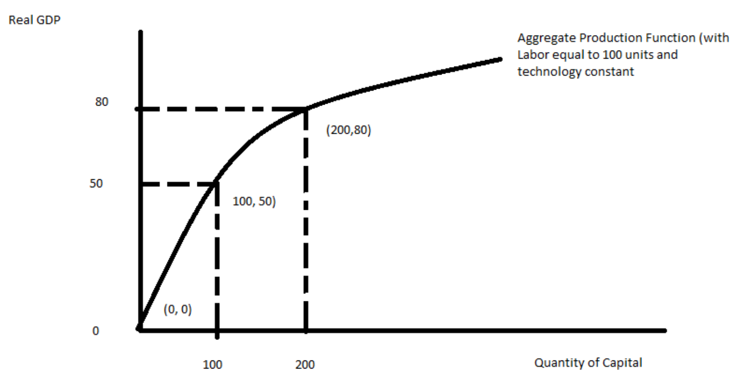
1. A
2. C
3. B
4. D
5. A
6. B
7. D
8.

a) $Productivity = \frac{Y}{L} = \frac{50\ units\ of\ output}{100\ units\ of\ labor} = \frac{1}{2}\ units\ of\ output\ per\ unit\ of\ labor$

b) Labor productivity will increase since each unit of labor will have more capital to work with: output/labor will increase.

c) $Productivity = \frac{Y}{L} = \frac{80\ units\ of\ output}{100\ units\ of\ labor} = \frac{4}{5}\ units\ of\ output\ per\ unit\ of\ labor$

d)



e) Capital productivity = Y/K. As we hire more units of capital with a given amount of labor we see real GDP increase. But, due to diminishing returns to capital we expect capital productivity to fall: real GDP increases at a slower rate than does capital, so real GDP/K declines.

9. D
10. A
11. D
12. A
13. A
14. A