

Chapter 28 Trends in macroeconomic indicators

Answers to Knowledge checks

- 28.1** The largest sector is education and health. The smallest is the grouping of agriculture, fishing, mining, energy and water.
- 28.2** A sustained surplus on financial account would increase the deficit on the current account. For example, selling assets abroad in the present would lead to outflows of investment income in the future, as explained in Chapter 26.
- 28.3** Greece experienced deflation (negative inflation) in each year from 2013 to 2016.
- 28.4** This means that labour productivity in Norway is 3.319 times higher than in the UK.

Answers to Exercises and Case studies

Exercise 28.1

It is not possible for me to comment on your response to this question, as I do not know when you will be carrying out the exercise.

Exercise 28.2

I cannot comment on this exercise, as I do not know when you are undertaking it, nor which countries you have chosen to discuss.

Case study 28.1

The UK's productivity puzzle

- a** Productivity is a measure of the efficiency of production. If productivity is low in one country compared to another, then production costs will tend to be higher, so relative prices will also be higher. *Ceteris paribus*, international competitiveness will be lower as a result. Low productivity may also be reflected in poor quality and design, rather than just in price — again, this will affect competitiveness.
- b** One argument put forward for the way in which productivity fell below trend after the recession is that firms acted in just this way, keeping workers in employment even when output was falling. This then has a dampening effect on productivity measures. One rationale for this would be that rehiring costs could be high. However, this does not provide a full explanation for the very slow recovery of productivity levels when output began to increase again.
- c** This is a big question, and only time will tell whether problems will arise. If the UK is successful in building new trading relationships, then it could be that there will be new trading partners from which to learn.
- d** The development of human capital is likely to be key to achieving productivity growth. Education and training is an important factor in allowing new best practice techniques of production and new technology to bring efficiency gains.

Answers to end-of-chapter questions

There are no end-of-chapter questions for Chapter 28.