CONCEPT: NEW GROWTH THEORY

● ***New Growth Theory*** takes a different approach to modeling economic growth, focused on technology as the driver:

- □ Technological _____________ is the key driver to productivity growth
  - > Economic incentives can help increase the rate at which new technologies are developed
- □ An economy has a certain level of ***knowledge capital***, which represents available technology and knowledge
  - > A firm can increase its knowledge capital by emphasizing ______________________________
  - > The per-worker production function concluded that physical capital has _________________________
  - > When new knowledge is found, it increases both the firm's knowledge and that of the whole economy
  - > Thus, knowledge capital is thought to have _______________________
    - - Knowledge is a public good, which is _____________ and ___________________
    - - Firms can benefit from the R&D of other firms (i.e. free-riding of a public good)
- □ Governments can help increase the accumulation of knowledge capital by:
  - > *Offering Patents and Copyrights for Intellectual Property*
    - - ***Patent*** – Exclusive right to produce a new product for a period of ______ years
  - > *Supporting Research and Development*
    - - The government can offer subsidies (grants) or tax breaks to incentivize investment in R&D
  - > *Subsidizing Education*
    - - Higher human capital → more productive research and development programs