Labour Productivity & Long-Run Growth — Worksheet

Part A — Productivity, its drivers and long-run growth on the model

This worksheet develops the supply-side skills that complete Unit 4: defining and explaining labour productivity, identifying its drivers and the policies that support them, and showing a productivity gain as a rightward shift of LRAS on the AD/AS model.

> Watch which curve moves. Fiscal and monetary policy shift **AD** (managing the short-run cycle). Productivity growth shifts **LRAS** (expanding long-run capacity). Naming the right curve is usually worth a mark on its own.

> **Worked example.** A rise in labour productivity raises potential output → **LRAS shifts right** → with AD unchanged, real output rises and the price level falls. Because output grows without adding to inflation, this is sustainable long-run growth.

Concepts

1. Define labour productivity, and explain how it differs from simply increasing the total hours worked in the economy. ____________

2. Explain what the aggregate production function (APF) shows and how it relates to productivity.

3. Explain why long-run economic growth is more important for living standards than short-run demand management.

Drivers and policy

4. Complete the table.

Driver	What it means	Example government policy
Human capital		
Capital deepening		
Technological progress		

5. Explain why technological progress is often described as the most important driver of long-run growth.

The model

6. On a fully labelled AD/AS diagram, show the effect of a rise in labour productivity. Label the LRAS shift and the change in real output and the price level, and explain why this is described as non-inflationary growth.

7. Compare, with reference to the curve that shifts in each case, the effect of (a) an increase in aggregate demand and (b) an increase in productive capacity. Explain why only one of these raises living standards in the long run.