Optional HW for ECO 301

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Due: April 22nd, 2010

Instructions: This assignment can be used to substitute for a missed homework or for the lowest scored homework you have received so far. It cannot be substituted for HW 5, which I will post on April 22nd. If you do not want to substitute it with the grade of a past homework, submitting this assignment will still guarantee you 5 bonus points out of 100, which I will add to your overall score at the end of the semester.

Your task is to read a famous article titled “Prosperity and Depression” by Professor Edward C. Prescott, who won the Nobel Prize in Economics in 2004. Ed was a wonderful teacher of mine in Minnesota and he is a great thinker and writer. Here is the link for his article at the Minneapolis FED’s web-site:


I hope you will enjoy reading what he has to say about different growth experiences of many nations around the world. In my opinion, understanding the basics of this article will be a great preparation for you as we start covering the Neoclassical Growth Theory this coming week. To complete this assignment, please read the article carefully and answer the following questions based on your reading:

1. Why does the author say that France and Japan are “depressed” relative to the US? How does the author explain this fact?
2. What are the basic differences between the growth experiences of New Zealand and Switzerland as opposed to that of South Korea and Ireland?
3. How does the author define “trend growth?” What is the trend growth rate that the author uses for the US?
4. What is the author’s explanation of why the original EU countries are much more prosperous now relative to their pre-WWII wealth levels?
5. The author uses what is called a “Growth Accounting Procedure” to understand what factors contribute to the increase in per-person GDP over time. What are the main ingredients and assumptions of this procedure? Please explain the logic behind it.
6. Table 2 in the paper presents results of the growth accounting exercise for US, Japan, and the UK. In particular, the GDP per capita in the UK and Japan are almost 30% lower relative to the US. What do the results reveal regarding the causes of the depression in the UK and Japan?
7. Explain what is meant by “the labor factor” and how it is relevant to the case of France.
8. What is “the productivity factor?” How is it relevant to the growth experience in Chile?
9. Based on your reading, comment on possible measures that Japan can implement in order to get out of its long recession. What would your recommendation be to them?