Discussion Questions

Topic 3: The Determinants of Economic Growth: The Role of Human Capital, Finance and Foreign Direct Investment

a. The Standard Solow Growth Model (Blanchard Chapter 11)

1. According to the Solow growth model, do countries that start with low income per capita levels grow at higher rates? Should they converge to the same steady-state per capita income?

2. According to the Solow growth model, does higher saving rates imply higher growth? Is it a transitory effect or a permanent effect (i.e. a steady-state effect)?

3. Does factor price equalization (the prediction of Heckscher-Ohlin model) imply converge in income per capita? Why not?

4. One of the strongest assumptions of Cobb-Douglas production functions is the fact that it implies that when K approaches to zero, the marginal product of capital approaches infinity. Can you see this graphically? Does this make sense? If we drop this assumption and refine the CD production function, can we explain the low growth in Africa? Show by using graphs.


1. What is the new feature that MRW add to the standard Solow growth? Which equation characterizes this new feature? Any parallels of this equation with the physical capital accumulation equation?

2. When one looks at the simple correlation between initial income per capita do the data show any type of convergence? What are the results if one classifies the countries into different group?

3. Does the inclusion of human capital improve the regression results? Is the human capital investment (SCHOOL) variable significant? What does the inclusion of SCHOOL imply for the rate of convergence?


1. What are the mechanism by which financial development affect growth? Think about the arguments proposed by KL and also think outside of the box.

2. What are the four indicators of financial development proposed by KL? What are the shortcomings of each indicator?

3. According to Table 7 which of the “financial development” variables are significant? What are the control variables not shown in the table?