

Macro Module 4 Solow growth model real savings practice exam questions

(The attached PDF file has better formatting.)

Question 4.1: Real savings

An economy that follows a simple Solow growth model has

- real savings = 84
- depreciation rate = 5.58%
- real GDP = 640
- capital = 6,470

What is the savings rate in this economy?

Answer 4.1: $84 / (640 - 6,470 \times 5.58\%) = 30.11\%$

real savings = savings rate \times net income = savings rate \times (gross income – depreciation rate \times capital) \Rightarrow

savings rate = real savings / (gross income – depreciation rate \times capital)