

Economics 314
Daily Question #5

Spring 2013
February 8

In Romer's variant of the Solow growth model with exhaustible natural resources, the production function is $Y(t) = K(t)^\alpha R(t)^\beta T(t)^\gamma [A(t)L(t)]^{1-\alpha-\beta-\gamma}$.

- a) What is output if natural resource input is zero?
- b) Evaluate the following statement: "Any level of output can be achieved with a microscopically small amount of natural resources if enough labor and capital are applied to production."
- c) How realistic are the implications in (a) and (b)?