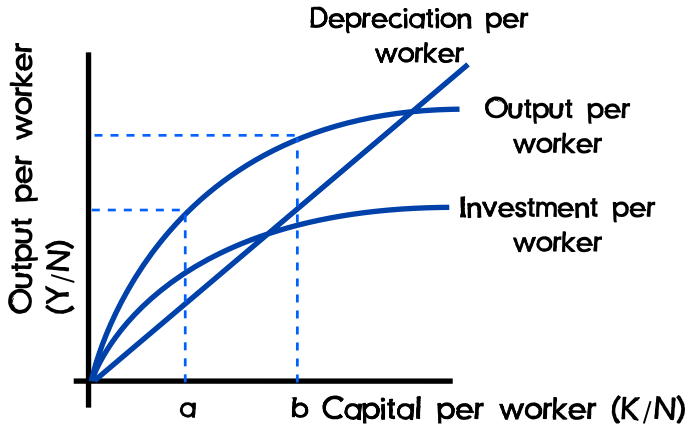
CAPITAL AND OUTPUT DYNAMICS

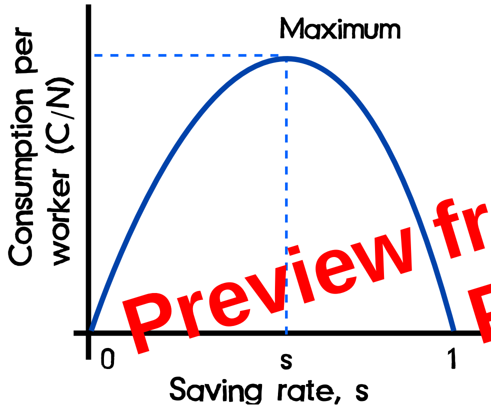


When capital and output are low (a)
-> Investment more than depreciation
-> Capital increases

When capital and output are low (c)
-> Investment less than depreciation
-> Capital decreases

SAVING AND OUTPUT

Saving rate has no effect on LR growth rate of output per worker
Saving rate determines level of output per worker in LR
Increase in saving -> higher growth of output per worker in SR



Increase in saving rate
-> Rise and then fall in steady-state consumption by worker

STEADY-STATE CONSUMPTION

GOLDEN-RULE LEVEL OF CAPITAL - level of capital at which steady-state consumption is maximised

ex. Solow growth model