

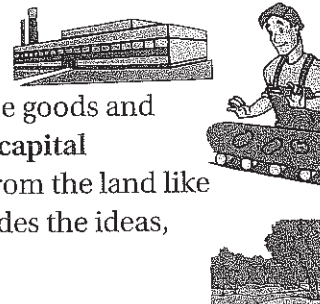
# Chapter 27

**SS6E7** The student will describe factors that influence economic growth and examine their presence or absence in Europe.

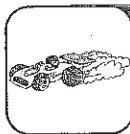
- Explain the relationship between investment in human capital (education and training) and gross domestic product (GDP).
- Explain the relationship between investment in capital (factories, machinery, and technology) and the gross domestic product (GDP).
- Describe the role of natural resources in a country's economy.
- Describe the role of entrepreneurship.

## Influences on Economic Growth

There are basic factors that influence economic growth in any part of the world. They are the productive resources used to produce goods and services. They include **human capital** (people who perform labor), **capital** (factories or machinery), and **natural resources** (things that come from the land like minerals or trees). Another factor is **entrepreneurship**, which includes the ideas, innovation, and risk involved in starting a business.



Economists measure a nation's economic performance by a standard called **Gross Domestic Product (GDP)**. The GDP is the total market value of the goods and services produced by a country's economy during a specific year. Economists use it to determine the health of a country's economy and compare it to other economies. Since Germany and the United Kingdom have two of the strongest economies in Europe, they have high GDPs. Russia and Ukraine are slowly working their way out of the former Soviet Union's command economy, so they have lower GDPs.



### Quick Quiz

Answer the questions below.

1. List four productive resources used to produce goods and services.

a. \_\_\_\_\_

b. \_\_\_\_\_

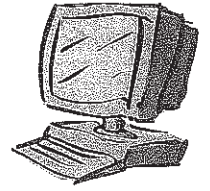
c. \_\_\_\_\_

d. \_\_\_\_\_

2. What is the Gross Domestic Product, or GDP? \_\_\_\_\_

# How to Raise Your GDP!

How a country manages its productive resources makes a big difference in the strength of its economy. For example, **investment in human capital** delivers long-lasting rewards. Studies have shown that investment in education and skills training clearly correlates to a higher GDP. Education creates a smarter and more productive workforce, which leads to greater economic growth.



There is also a clear relationship between **investment in capital** like factories, machinery, and technology and GDP. Examples include a company building a new factory or buying new computers. Investment in capital equipment helps economic growth by providing workers with the best and newest tools, making them more productive.

Most European countries have good education systems and strong capital investment. With its booming economy and emphasis on education, Germany is an example of how investment in people and capital equipment leads to economic strength. Germany's government has established vocational schools and universities to train its workforce. Investment in capital equipment is a priority for German companies and the German government.

In contrast, Russia and Ukraine have much lower GDPs than many other European countries. Both countries are rebuilding their economies after suffering serious financial problems once they became independent in the early 1990s. In Ukraine, educational systems suffered because there was little money for schools or teachers' salaries. In Russia, years of low capital investment have left manufacturing plants with old, outdated technology.

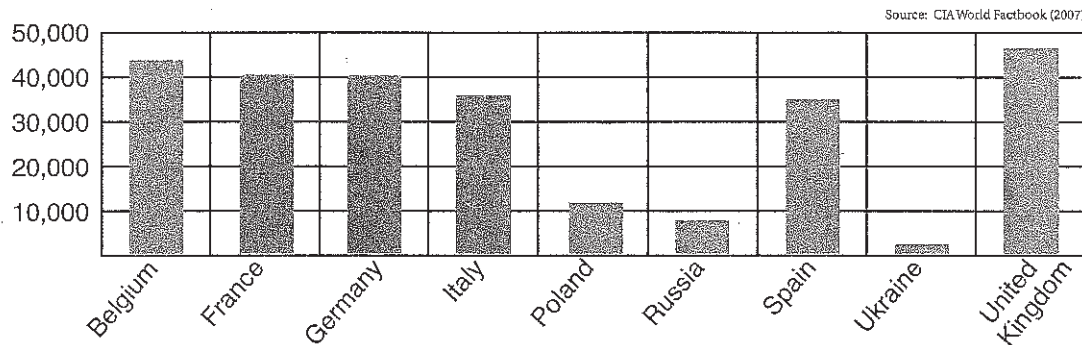


## Essential Skills

The chart below shows GDP per capita (per person) in Europe. Study the chart and answer the following questions.

1. List the countries with the four highest GDPs. \_\_\_\_\_  
Do these countries have high or low investment in education and capital equipment? \_\_\_\_\_
2. List the countries with the three lowest GDPs. \_\_\_\_\_  
Do these countries have high or low investment in education and capital equipment? \_\_\_\_\_
3. What type of economy did the countries with the lowest GDPs have prior to 1991? \_\_\_\_\_

**GDP Per Capita for Selected European Countries**



# Natural Resources and Entrepreneurs

One reason that the United Kingdom and Germany have successful economies is because they have many natural resources. Natural resources have an important role in any nation's economy. They are the fuel for industry and a source of income when exported to other countries. The United Kingdom has valuable reserves of coal, oil, and natural gas. Germany has rivers, forests, and large deposits of coal and iron ore. Russia also has many natural resources, but they are located in remote areas and it is difficult and expensive to harvest them.



## Word Definition

### entrepreneur:

someone who has an idea for a good or service and takes the risks to produce it

Entrepreneurs have a vital role in any country's economy. They come up with new ideas and use human, capital, and natural resources to bring their ideas to the marketplace. They must be willing to take risks, and often share those risks with others by borrowing funds from a bank or a wealthy investor. Entrepreneurs are valuable because they introduce innovative products and help economies adapt to changing conditions—a common occurrence in our fast-moving, global society!



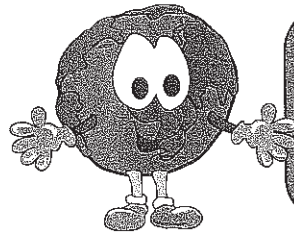
Although small businesses are the cornerstone of many European economies, European countries do not have as much entrepreneurial activity as the United States or developing countries in Latin America or Asia. The reasons include high taxes, lots of regulations, and job security. Since entrepreneurs are such an important factor in economic growth, the EU is urging its members to reduce taxes and regulations on small businesses and helping set up training programs on how to run a business.



## Quick Quiz

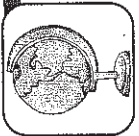
Fill in the blanks below. Use the Word Bank to help you, but you may not need all the words in it.

1. Natural resources provide fuel for \_\_\_\_\_ and are \_\_\_\_\_ to other countries to make money.
2. \_\_\_\_\_ has lots of natural resources, but it's difficult and expensive to get to them.
3. Entrepreneurs help economic growth because they introduce \_\_\_\_\_ and help countries adapt to \_\_\_\_\_ in the marketplace.



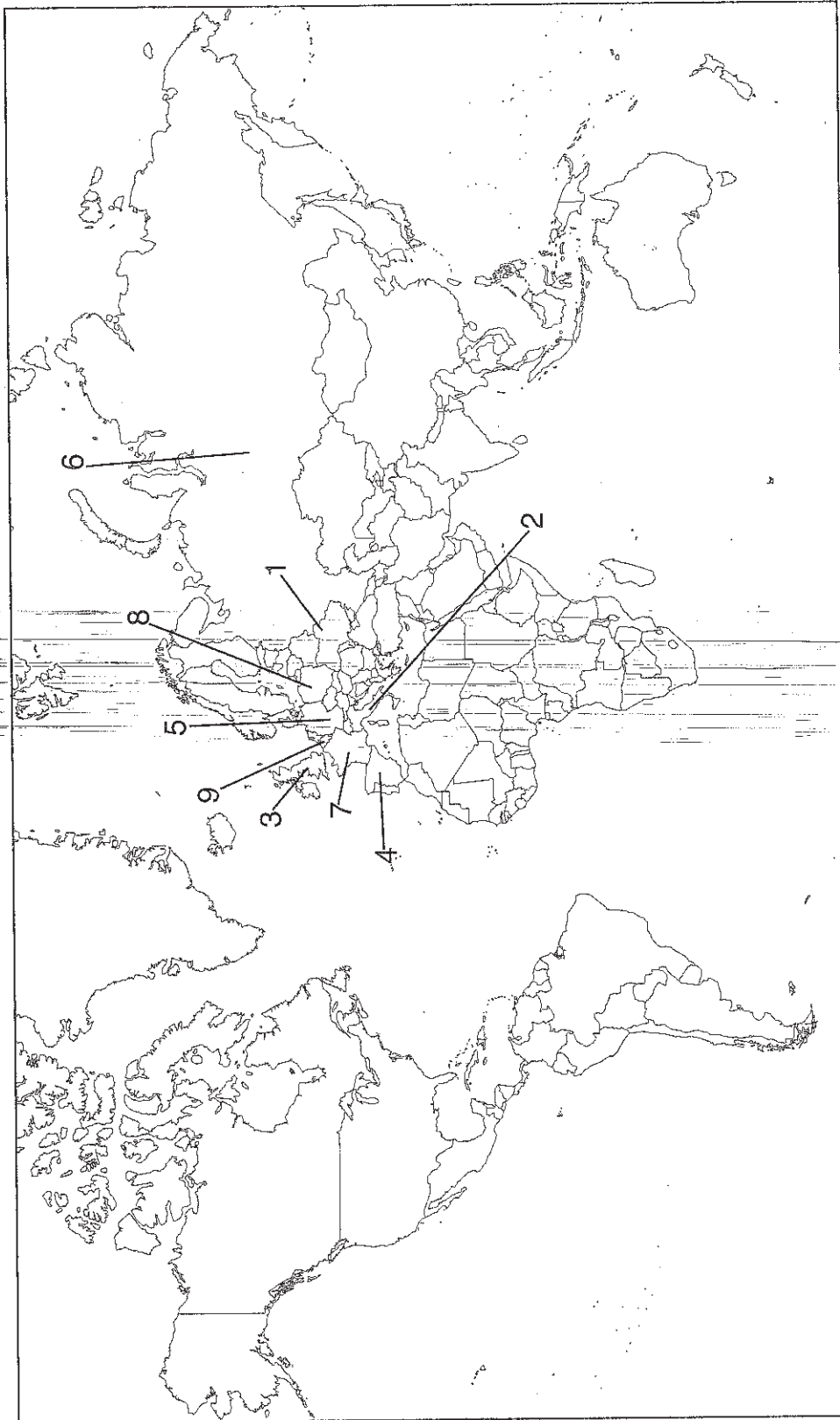
## Word Bank

imported                      United Kingdom  
changes                      innovation  
Russia                         industry  
exported



### Map Skills

Find the countries listed below on the world map. Write the corresponding number in the box next to each country name.



- Belgium
- Italy
- Spain

- France
- Poland
- Ukraine

- Germany
- Russia
- United Kingdom