Production Possibilities and the Production Function, Figure 7.1

(a) Production possibility frontier

Leisure is forgone to produce real GDP

(b) Production function

An increase in labor hours brings an increase in real GDP

© 2003 Addison-Wesley
An Increase in Labor Productivity, Figure 7.2

(a) An increase in labor productivity

(b) The U.S. production function
The Labor Market and Potential GDP, Figure 7.6

(a) The labor market

(b) Potential GDP

© 2003 Addison-Wesley
The Effects of an Increase in Population, Figure 7.8

(a) The labor market

(b) Potential GDP

© 2003 Addison-Wesley
The Effects of an Increase in Labor Productivity, Figure 7.9

(a) The labor market

Increase in capital and advances in technology increase the demand for labor...

Real wage rate (1996 dollars per hour)

Full employment increases

(b) Potential GDP

... shifts the production function upward and increases potential GDP
Job search increases, and unemployment is above the natural rate.

Job search creates unemployment at the natural rate.

Job search decreases, and unemployment is below the natural rate.