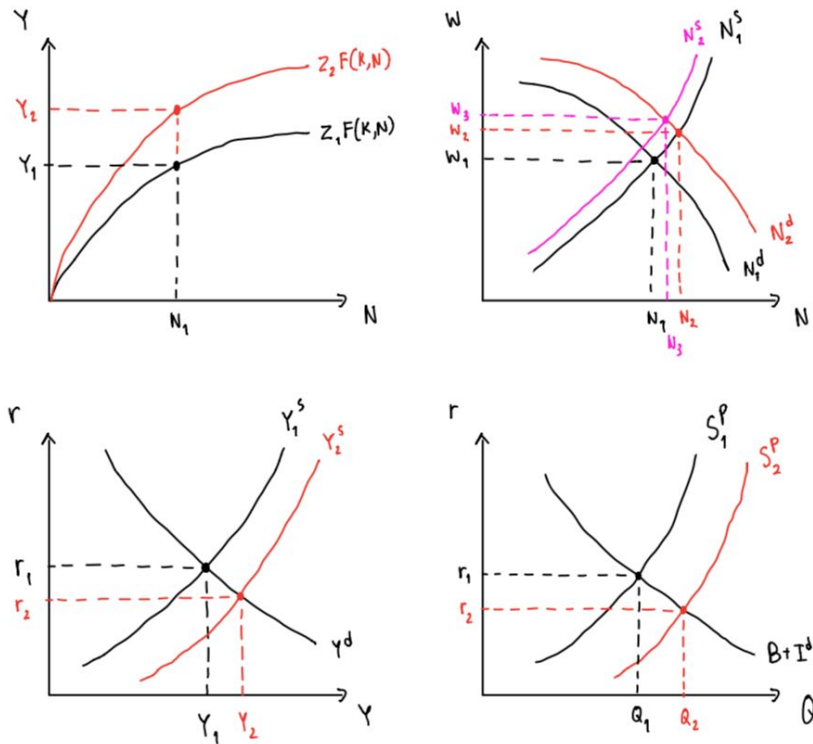


### Industrial Revolution (Exogenous Shock)

The Industrial Revolution began in the 18<sup>th</sup> century. There are many technological innovations during that period, which are mainly from Great Britain. Some of the innovations during the revolution include hand production methods to machines, the increasing use of steam power and water power, the development of machine tools, and the rise of the mechanized factory system. The main reason behind the beginning of the Industrial Revolution is through trading. From the statement above, the Industrial Revolution is a critical moment in history that influenced people in a good way. As a result, it leads to a positive productivity shock to the economy.



The positive productivity shock that caused by the Industrial Revolution increases the productivity function and the marginal product of labor. This shifts the labor demand to the right as firms want to hire more labor. Output demand also shifts to the right since there are more output; however, interest rate decreases. Thus, making the labor supply shift to the left causing an even higher wage. Overall, people's consumption increases because they are richer; however, people save more (private savings increase) due to the fact that their income increases more than their consumption (consumption smoothing). In addition, the employment rate increased during the Industrial Revolution.