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## **WAGE GROWTH ACCELERATION AND CAPITAL DEEPENING IN CZECH REPUBLIC**

### **Abstract:**

The paper assesses capital deepening as a response to constant wage rise in Czech Republic. The first part of the paper investigates the characteristics of capital and labour production factors in the Czech republic. It first assesses the specifics of the Czech labour market including the comparison with other countries of the Visegrad group and the EU. Secondly, it investigates the structure of capital and investment environment in the Czech republic. The second part of the paper estimates the elasticity of capital-labour substitution using FOC estimating equation and OLS method. It also discusses the applicability of the structural change theory based on differences in the value of elasticity of substitution among manufacturing sectors in Czech Republic. This is particularly relevant in the context of the actualisation of investment strategy of the Czech government, which aims to identify and support strategic manufacturing sectors for the future development of the Czech republic.

### **Keywords:**

Elasticity of substitution, Capital, Wages, Investment

**JEL Classification:** A10