

Written Exam Economics summer 2021

Summer School: The Economic History of Europe

July 26-27, 2021

Suggested answers

Please read the following carefully and answer **all** the questions.

Question 1

This question asks you to consider the measurement of preindustrial standards of living.

- i. Explain why economic historians (and others) argue that it is important to understand standards of living in preindustrial times. Discuss the advantages and disadvantages of GDP/capita measures for this.

The answer might for example discuss the fact that understanding when and why present-day rich countries became rich goes some way to explaining the extent of inequality in the world today (since all countries started poor). GDP/capita offers a common measure of living standards, which is easily comparable across space and time, but historical estimates are based on many assumptions. Also, GDP/capita does not capture other aspects of welfare we might find important, such as political rights, education, health, etc.

- ii. The Maddison dataset presents one way of measuring the extent of preindustrial growth in many countries. Use the Maddison data to illustrate this and discuss some of the theoretical determinants of the patterns of preindustrial growth you observe.

The student should present one or more graphs showing GDP/capita for one or more countries in preindustrial times. This should then be related to theories of preindustrial growth, largely based on Smith and Malthus.

- iii. Real wages are often also used to illustrate standards of living in history. In the absence of both GDP/capita measures and real wages, how else might we measure standards of living in preindustrial times?

In the textbook and articles other measures such as urbanization and TFP calculations are suggested.

- iv. What does the concept of an “Industrious Revolution” imply? Explain why this might impact on how we interpret measures of living standards based on real wages. Why do economic historians often use real wages to measure preindustrial standards of living?

The “Industrious Revolution” implies that people started working a larger share of the year at some point in history, often suggested to be just prior to the Industrial Revolution, perhaps due to

demand for new goods. Wages for preindustrial times are often day wages, making estimates of living standards based on real wages sensitive to assumptions about the length of the working year, which might be increasing over time – see e.g. Box 4.3 in the textbook.

- v. What was the Industrial Revolution? Did it mark a revolution in economic growth rates?

The Industrial Revolution implies larger shares of the population and the economy in industry, where efficiency gains are realized through new technologies and institutions (e.g. the factory system). The answer should discuss the debate about the extent of growth during the British Industrial Revolution (see Section 6.1 in the textbook). Modern estimates suggest that growth rates were modest during the Industrial Revolution itself.

N.B. The 2013 version of the Maddison database is in the file “mpd_2013-01.xlsx”.

Question 2

In what way did trust impact on the emergence of a modern banking system? And are banks good for growth and development? Explain your answer.

The issue of trust is discussed in section 7.2 of the textbook. It is good if the student puts their discussion of banks into the context of the impact of institutions and development. Banks are important – even necessary – for a well-functioning modern economy, see Box 7.1, Section 7.6 and Pascali (2016). On the other hand banking crises can occur, in part at least due to the fractional reserve nature of banking, and these can lead to significant deviations from trend growth in the short to medium term.

Question 3

As a first approximation, economists often argue that people are largely motivated by self-interest. Why then have many Europeans, at least since the Second World War, voted for parties which have established and maintained large Welfare States? Would free markets not be a more efficient provider of services such as healthcare, education, and pensions?

The answer can be found in section 10.6 in the textbook, regarding the “market failure theory” for the public provision of education, healthcare, pensions, etc. It would also be relevant to discuss Boberg-Fazlić, and Sharp (2017) and their finding that welfare provisions stimulate charitable giving rather than the opposite, as might otherwise be feared.

Question 4

What is globalization, and what explains periods of globalization and de-globalization in history? In your answer, explain why globalization reduces the price-setting market power of both industry and trade unions.

Globalization is market integration on a world scale. This might be market integration of commodity, capital, and labour markets, and the extent of this is often measured using the law of one price. The main determinants of globalization and de-globalization are technology (e.g. better communications) and policy (e.g. tariffs, capital controls, immigration laws). Policy will reflect the relative political power of winners and losers from globalization. One political concern might regard the loss of price-setting market power of industry and trade unions. A figure like Figure 12.1

in the textbook can be used to illustrate this, but it is also sufficient to explain that this is because markets become more determined by global demand and supply (rather than local demand and supply) in a more globalized world.