Written Exam Economics Summer 2020

Summer School: The Economic History of Europe

July 27-28, 2020

Suggested answers

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

Question 1

Some countries are rich and other countries are poor. This question asks you to consider why this might be the case.

i. Why was preindustrial growth so slow?

The answer might discuss the slow "Smithian" nature of technological progress before industrialization and contrast it with the more rapid science and R&D based progress subsequently. Institutional explanations might also be relevant.

ii. For a European country of your choice, use the Maddison dataset to illustrate the extent of preindustrial growth relative to modern economic growth.

The good answer will note the "hockey stick" nature of growth until today, with low growth in preindustrial times and more rapid growth today. It is excellent if the student argues for separating the preindustrial data, so that patterns of growth, stagnation, and reversals can more easily be discerned. It would be relevant to note the paper by Fouquet and Broadberry (2015).

iii. What was the role of the demographic transition for the onset of modern economic growth?

The good answer should start by defining the demographic transition. One reason for why it led to growth could be associated with the concept of a quantity-quality trade off. Parents began to value the "quality" (e.g. health and education) of their children, and reduced their fertility to allow for investment in them.

iv. Explain the concept of beta convergence. Why have so many countries not converged and remain relatively poor?

Beta convergence implies that relatively poor countries can be expected to grow faster than rich countries. At least three reasons can be given for this: technology transfer, the reallocation of factors of production from less efficient sectors (structural change), and the fact that more developed countries will suffer from diminishing returns to capital. That countries remain poor might be due to certain institutional factors such as lack of openness, low educational level, less advanced banking system, etc. It is good if an understanding *that income per capita is only one measure of living standards, and that there has been more convergence in e.g. education and health.*

v. What is the role of elites for development? Give some examples from history.

Elites can be bad for development if they maintain institutions which are bad for efficiency, e.g. serfdom. There is also another side to this, however, and it would be relevant to mention Mokyr's idea of an "industrial enlightenment", as well as the examples from: Squicciarini and Voigtländer (2015); Cantoni and Yuchtman (2014); Acemoglu et al (2005); and Jensen et al (2018).

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

Question 2
"Money, money, money / Must be funny / In the rich man's world". But why would the world be poorer without money?

Money solves the issue of coincidence of wants and facilitates trade and exchange, and it would be relevant to discuss why this is important for growth. The availability of money can be associated with development in history. It is good if the answer shows an understanding that money is an institution which evolved and persisted due to its efficiency-enhancing effects. The answer could also explain how money can be defined, and how it has evolved over time from commodity money to fiat money.

Question 3
Use the Maddison dataset to make a graph of GDP/capita for the UK and France over the interwar period. According to these data, which country performed better in the 1920s, and which country performed better in the 1930s? Explain your findings.
N.B. The 2013 version of the Maddison database is in the file "mpd_2013-01.xlsx".

The graph should look similar to Figure 9.2. France performed better in the 1920s and worse in the 1930s. This can be explained by monetary policy, and in particular the workings of the gold standard. France devalued after the First World War, allowing it to avoid deflation, whereas the UK was the first to leave the gold standard and allow the pound to depreciate (1931 vs. 1936 for France). Deflation was necessary to protect the value of the currency in gold as re. the "rules of the game". Deflation is dangerous for the economy since it increases product wages and real interest rates. Moreover, devaluation could have made exports more competitive. It would be relevant to mention the article by Eichengreen and Irwin (2010), and the relationship between membership of the gold standard and protectionism, which was also detrimental for growth.

Question 4
What is globalization? What explains periods of globalization and de-globalization?

Globalization is market integration on a world scale. It is important to note that globalization can be for commodity, capital and labor markets. The Law of One Price will be obeyed if there is market integration, *which will cause price gaps to narrow, and adjustment times to shorten. It is good to note that market integration is an efficiency-enhancing institution. For example, more integrated commodity markets will be characterized by higher levels of trade, which in turn is important for specialization and technology transfer. The first globalization was from around the middle of the nineteenth century until the First World War, and the second globalization was from after the Second World War. The present globalization retains protection for agricultural goods, however, as well as strong restrictions on the mobility of labor. Globalization and de-globalization can be explained by technology and institutions. Steam shipping (Pascali 2017) and railroads fueled the market integration of the nineteenth century, but were complemented by falling institutional barriers to trade (e.g. the UK's Corn Laws which were abolished in 1846). The decline in globalization in the interwar period was largely institutional, as countries raised barriers to trade, capital and labor mobility.*