

Written Exam at the Department of Economics summer 2018

An Economic History of Europe

Final Exam

30 July 2018

(3-hour open book exam)

Suggested Answers

Question 1

For a country of your choice, first present a graph of real wages with a focus on the preindustrial period. Then, please discuss the following:

- i. What might explain the developments you observe over time, both over the whole period and for shorter intervals?
 - *The answer will of course depend on the time series chosen. Short run (annual) fluctuations are mostly driven by the weather (harvest shocks). Longer run fluctuations might be driven by technological progress and demography. It is fine if the student refers to the answers to parts (ii) and (iii).*
- ii. In what way can what you observe in your graph be related to theories of preindustrial growth?
 - *The answer should discuss the Smithian and Malthusian theories as well as the role of technological progress. If the real wages are relatively flat, they would seem to indicate a relative importance of Malthusian effects.*
- iii. What are the advantages and disadvantages of using real wages for the analysis of historical living standards?
 - *Data on nominal wages and prices are relatively easy to find, making the construction of real wages simple. They are however not necessarily representative, and they do not cover all aspects of incomes, which also include income from capital and land for example. Nominal wages are also often day wages, making it impossible to know how much they correspond to in terms of annual incomes. The answer should show a knowledge of the formal connection between real wages and income per capita given in Box 4.3. In this connection it would be relevant to refer to the article by Fouquet and Broadberry (2015) on estimates of GDP/capita.*

N.B. Robert Allen's wage data are in the file "Labourers.xlsx".

Question 2

Discuss the importance of technological progress for economic development. Then, present historical examples of technological advances in history, with an explanation of why they were economically important.

- *The answer might explain the fundamental role of (Smithian) technological progress for creating increases in income per capita in preindustrial times, as well as the role of*

technological progress through science and R&D for economic growth today. It is good if the answer also mentions the importance of openness for technological catch up, as well as the resource-saving and non-rival nature of technological progress. There are numerous examples of technological advances in the textbook, such as the printing press and windmills. Relevant articles with other examples are Andersen et al (2016), and Jensen et al (2018), Nunn and Qian (2011) and Hornung (2014) are also relevant to mention. The answer should explain how these technologies improved productivity.

Question 3

What institutions might be considered to characterize a modern economy? Explain why these institutions are important for economic development. Finally, explain, with examples, why long-lived institutions might persist despite not being economically “efficient”.

- *The characteristics of a modern economy are discussed in section 5.3 of the textbook: “free access to functioning markets, advanced division of labour, and a government that respected and enforced property rights”. The answer should explain how functioning markets are necessary for the efficient allocation of factors of production. Division of labor leads to growth as explained by Smith. Property rights avoid the tragedy of the commons and encourage investment. It is good if the answer includes a brief discussion of the first modern economy, the Dutch Republic. Many examples of long-lived yet inefficient institutions might be given, including slavery, serfdom, the church’s ban on usury, sharecropping, etc. It is good if the answer reveals an understanding of the evolutionary explanation for institutional success and failure, and how this is countered by the examples given. A reason for the persistence of inefficient institutions might be that they benefit a small, privileged minority. A relevant article to mention is Acemoglu et al (2005).*