Suggested answers for the exam in 'An Economic History of Europe'

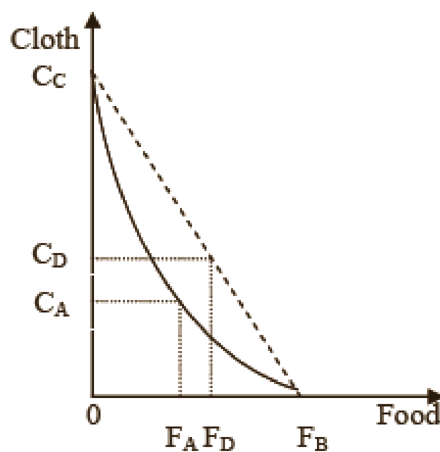
Question 1

You are asked to consider the growth record of a European country before industrialization.

i. In general, what determined European preindustrial growth?

Preindustrial growth was determined by 'Smithian' division of labor, economies of repetition and gains from specialization. The precondition for this is a sufficient 'extent of the market' or aggregate demand, which is a result of population growth and market integration. It is good if the student illustrates this with a simple figure such as the following, which shows that production can be increased through specialization:

Figure 2.1. Mutual gains from specialization



Offsetting this might have been the 'Malthusian' diminishing returns to labor due to a fixed supply of land. It is good if the student shows a healthy skepticism towards this, in particular because of the persistent and resource-saving nature of (Smithian) technological progress.

ii. Using data available on the textbook's website, and for the same country in each case, make graphs of GDP/capita *and* real wages.

GDP/capita can be found on Angus Maddison's website, and real wages can be constructed using Robert Allen's database. Given that the question is about preindustrial growth, the graph should not be extended much beyond 1800 (which will also make the earlier patterns difficult to identify).

iii. Explain how they differ from each other. Why might this be?

This depends on the country chosen. However, generally they will not follow the same patterns. This could be due to the poor quality of the data. However, the student should also explain that, although useful, real day wages do not need to track GDP/capita, which also depends on the number of days worked, the share of the population who work, and the proportion of GDP due to labor income.

iv. Relate your findings to the theories you discussed in (i) above.

Most (but not all) countries show gradual GDP/capita growth over time, which can be related to the idea of Smithian growth above. It is good if the student attempts to explain short run fluctuations through a knowledge of history (for example the Black Death).

Question 2

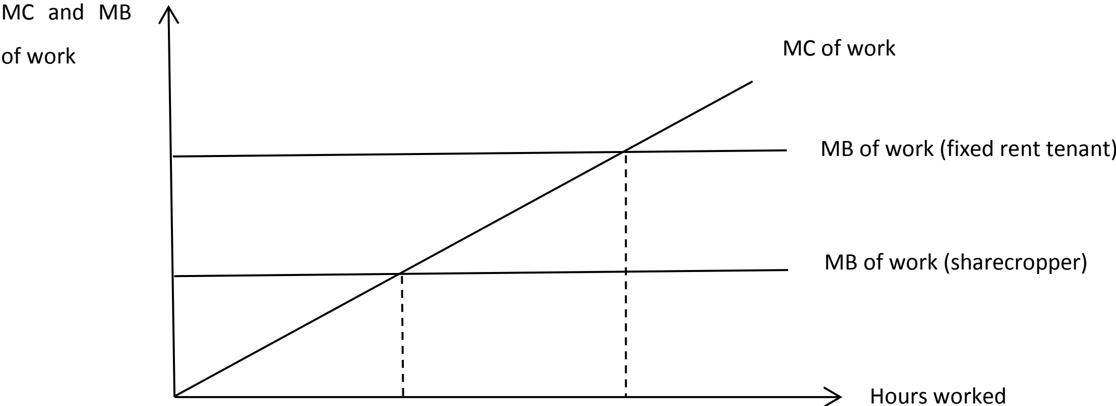
Sharecropping is often considered to be an example of an inefficient but long-lasting institution in economic history.

i. What was sharecropping?

Sharecropping was an institution whereby the landowner allows the use of his land for a share of the crops produced.

ii. Why was it inefficient? Illustrate your answer with a diagram.

This can best be illustrated by considering the labor supply of a sharecropper in relation to that of a tenant who pays a fixed rent.



The fixed rent does not affect labor supply: this farmer will work until the marginal benefit of the last hour worked is equal to its marginal cost (in terms of foregone leisure). Since the sharecropper loses

a fraction of his output, his marginal benefit from each hour worked is lower, and he will thus work fewer hours.

iii. Can you think of other inefficient institutions in history?

There are numerous examples! For example slavery, serfdom, the church's ban on usury, etc.

iv. Why might inefficient institutions persist?

Often they persist because they are to the benefit of a small, privileged minority.

Question 3

What was the Industrial Revolution, and why did it start in England?

The answer should relate to Chapter 6 in the textbook, as well as the articles by Allen (2011), Becker and Woessmann (2009), and Kelly, Mokyr and Ó Gráda (2014). The student should recognize that there is a debate about this, and illustrate this through the required reading.

Chapter 6 argues that science had little to do with the Industrial Revolution in England, with the exception of steam technology. Neither did it lead to a surge in economic growth. There were just a few small dynamic sectors, for example textiles. Innovation relied on skilled workers and mechanics, rather than modern R&D.

Allen argues that the Industrial Revolution occurred in England because of her unique combination of high wages (due to a trade boom) and cheap energy (in particular with easy access to coal, although it is good if the student realizes that the Industrial Revolution was largely powered by water in its initial stages). This gave an incentive to invest in labor-saving, capital- and energy-intensive technologies, which were not profitable elsewhere, although as efficiency increased, the Industrial Revolution spread. Kelly, Mokyr and Ó Gráda, on the other hand, argue that the Industrial Revolution started in Britain due to the better physical condition and higher endowment of skills of British workers compared to other countries.

Becker and Woessmann argue that the Protestant reformation in Prussia, since Martin Luther argued for the importance of reading the bible, led to greater literacy and thus human capital. The student might speculate that England was subject to similar effects after her reformation.

Question 4

What was the gold standard, and why did it fail during the interwar period?

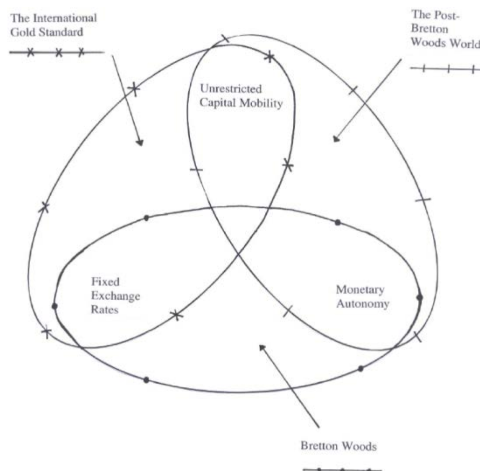
The gold standard was an international monetary system which was in operation from around the 1870s in most countries until the First World War. Although attempts were made to resurrect it during the interwar period, they failed.

There were no formal rules to the gold standard, but the following were usually observed:

1. Currency freely convertible to gold at a set price or "mint parity".
2. Free flow of gold between countries.
3. Currency to be backed by gold reserves.
4. If losing gold in liquidity crisis, raise interest rates.
5. Temporary suspension should be followed by restoration of mint parity as soon as possible.
6. Prices determined by demand for and supply of gold.

It is excellent if the student demonstrates that this implies fixed exchange rates through a process of arbitrage.

It is good if the student relates the failure of the interwar gold standard to the 'open economy trilemma', as illustrated below:



Since the gold standard implied unrestricted capital mobility (rule 2 above) and a fixed exchange rate (rules 1-3), there was no room for independent monetary policy. Before the First World War 'internal' policy objectives, such as combating unemployment, were considered less important by policymakers. After the war this changed with democratization, trade unionism, and the 'threat' of socialism and communism.

The student might also discuss how the First World War and subsequent policy led to differing inflation regimes. Returning to the prewar parity required substantial deflation in many countries, which, by increasing the real cost of labor if wages are sticky, depresses output. This can be related to the paper by Klovland (1998), who examines this from a Scandinavian perspective.