

An Economic History of Europe

Final Exam – Suggested Answers

Question 1

Real wages are often used to give an impression of the performance of preindustrial economies.

- i. How are real wages constructed?

Nominal wages / price of a consumption basket.

- ii. Present graphs of nominal and real wages for a preindustrial economy of your choice.

*Any graph of historical real wages would be fine, for example those of Bob Allen. Besides the usual guidelines for making graphs (title, axis labels, source, etc.), it is important that the students graph the **pre-industrial** period, i.e. up to ca. 1800 or 1850 as a guideline, depending on the economy in question.*

- iii. How do your graphs relate to theories of preindustrial growth?

The answer depends on the data chosen above. But often real wage series present a pattern of short run swings but long run stability, or even decline. This should be related to the Smith / Malthus theories about preindustrial growth, perhaps supporting Malthus.

- iv. Discuss briefly the advantages and potential pitfalls of using real wages as a proxy for the level of national per capita income.

This should follow Box 4.3 in the book, and the good answer should relate this to how changes in the assumptions of L , d and s could affect how we would understand the development of living standards over this period. A discussion of the industrious revolution, where workers worked more days up to industrialization, would be relevant in this context.

Question 2

The Nobel Prize winning economist Paul Samuelson once said that comparative advantage is ‘the best example of an economic principle that is undeniably true yet not obvious to intelligent people’.

- i. Explain the concept of comparative advantage.

This should be based on the description in Chapter 8. An understanding of the importance of opportunity costs for the theory, as well as the difference between Ricardo's theory and the Heckscher-Ohlin model should be demonstrated.

- ii. How did the structure of trade change between the 19th and 20th centuries?

This should use section 8.2 of the textbook. An understanding that trade changed from intersectoral to intrasectoral trade should be demonstrated.

- iii. Why do you think comparative advantage might not be 'obvious to intelligent people'? Why do people often oppose free trade based on comparative advantage?

The answer could stress the counterintuitive nature of the comparative advantage argument, i.e. that countries can have gains from trade by exporting the goods they have a comparative advantage in, but not an absolute advantage. It should also discuss the fact that there are winners and losers from trade and specialization, see Chapters 8 and 12.

Question 3

'Long lasting economic institutions must be efficient, because otherwise they would have failed.' Discuss whether this is true with reference to a specific example from history.

The answer should demonstrate an understanding of the evolutionary explanation for institutional success and failure. A counterexample could be serfdom, which was clearly inefficient, but lasted for hundreds of years. There is a long discussion of serfdom in the textbook, but other examples would suffice.

Question 4

Classical economists would have regarded levels of taxation in Western Europe today as being incompatible with the levels of income we now enjoy. Present day new classical economists would in general support the idea that lower taxation would give higher growth. Do you agree? Justify your answer with reference to the historical experience.

The answer could draw on a number of issues raised in Chapter 10, with the main counterargument being that we have much higher taxes today than in the past, but generally much higher growth. Reasons for why this might be should also be given, for example the market failure theory of the welfare state presented in section 10.6. The paper by Kleven on 'How Can Scandinavians Tax So Much?' is relevant here. The students might mention the three policies he suggests to be part of the answer to this question.