KANDIDAT

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PRØVE

POL2012 1 Teorier og modeller i politisk økonomi

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POL 2012: Teorier og modeller i politisk økonomi

Dato 29.11.2021
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Faglig kontakt under eksamen: Marius Swane Wishman **Tlf:** 47056893

ANNEN INFORMASJON:

Skaff deg overblikk over oppgavesettet før du begynner på besvarelsen din.

Les oppgavene nøye, gjør dine egne antagelser og presiser i besvarelsen hvilke forut- setninger du har lagt til grunn i tolkning/avgrensing av oppgaven. Faglig kontaktperson skal kun kontaktes dersom det er direkte feil eller mangler i oppgavesettet. Henvend deg til en eksamensvakt hvis du ønsker å kontakte faglærer. Noter gjerne spørsmålet ditt på forhånd.

Vekting av oppgavene: Eksamen består av to deler som vektes likt.

Varslinger: Hvis det oppstår behov for å gi beskjeder til kandidatene underveis i ek- samen (f.eks. ved feil i oppgavesettet), vil dette bli gjort via varslinger i Inspera. Et varsel vil dukke opp som en dialogboks på skjermen. Du kan fi igjen varselet ved å klikke på bjella øverst til høyre.

Trekk fra/avbrutt eksamen: Blir du syk under eksamen, eller av andre grunner ønsker å levere blankt/avbryte eksamen, gå til “hamburgermenyen” i øvre høyre hjørne og velg ‘Lever blankt’. Dette kan ikke angres selv om prøven fremdeles er åpen.

Tilgang til besvarelse: Etter eksamen finn du besvarelsen din i arkivet i Inspera. Merk at det kan ta én virkedag før eventuelle håndtegninger vil være tilgjengelige i arkivet.

1 Del 1

Del 1
*Svar på **ALLE** de følgende spørsmålene (50%):*

Spørsmål 1: Forklar Ricardo's teori om leie.

Spørsmål 2: Modeller og forklar en endring i etterspørsel.

Spørsmål 3: Annta at Italia kan produsere enten 120 tonn oliven eller 7000 liter rødvin, og at Hellas kan produsere enten 80 tonn oliven eller 2000 liter rødvin. Bruk Ricardo's teori om handel til å forklare potensiell handel mellom de to landene.

Spørsmål 4: Forklar Marx's teori om fallende profi

Spørsmål 5: Hva er de vanligste analyseenhetene i den neo-klassiske tradisjonen?

Spørsmål 6: Forklar hvorfor jordreform er et sentralt første steg innen økonomisk utvikling i følge Studwell (2013).

Spørsmål 7: I følge Bates (2008), hva er problemet med det han kaller 'kontrollregimer' ('control regimes')?

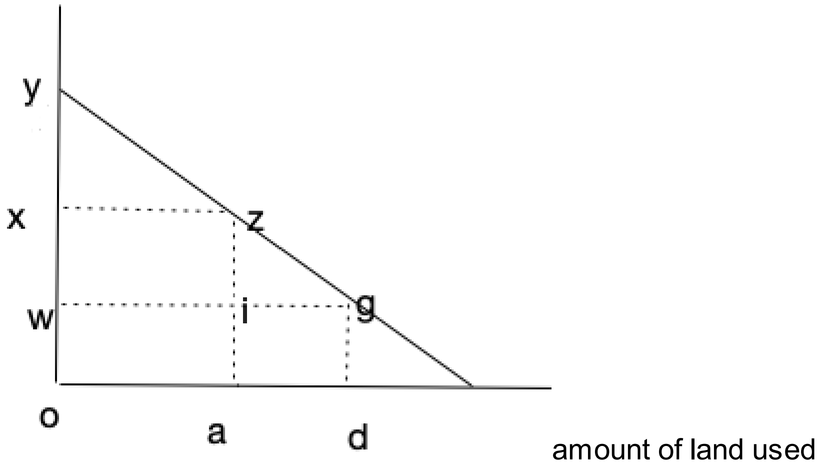
Skriv ditt svar her

Question 1:

Ricardo assumed that there are three different classes of people depending on their income. There are capitalists who receive profit, landowners who receive rent and workers who receive wages. Profit works as the source of capital accumulation. The capitalist is putting the profits back into his business. The landowners receives money which would otherwise go to capitalists or workers. If that money comes from the profit share it reduces capital accumulation and thereby economic growth. Ricardo was very critical of the role of landowners and stated that the interest of the landowner is always opposed to every other class. Ricardo based his theory on two assumptions. The first assumption is that land always differs in fertility. The second assumption is that competition equalizes the profit rate among different farmers. He said that profits will be squeezed out between rent and wages. If the economy is expanding and more land is used the share of rent increases while the profit share decreases (even if wages stay at subsistence level). If wages increase (e.g. because food gets more expensive as less fertile land is used) the squeeze is even tighter. The marginal product of rent is thereby declining as more of it is used. Economic growth becomes increasingly hard to sustain.

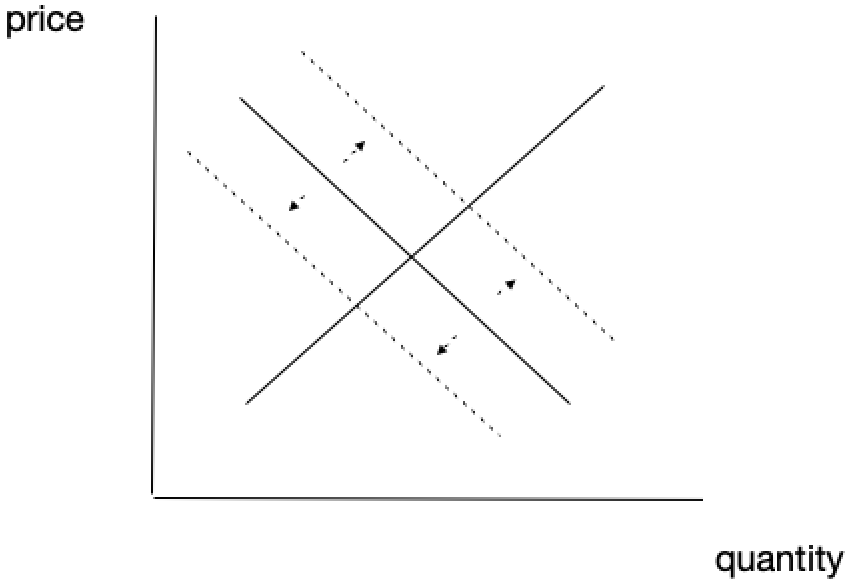
Ricardo argued that more free trade could significantly reduce this problem. He was arguing against impediments of trade which made it possible to also cultivate land with low fertility.

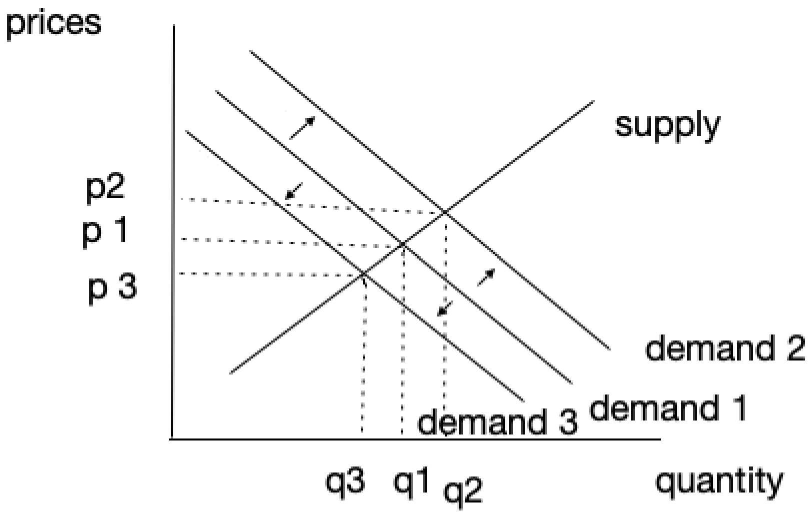
graphical illustration:



If oa amount of land is used wages are at subsistence level. The share rent share is xyz, the profit share wxzi and the wage share is owia. If the economy is expanding and more land is used the share of rent increases and the profit share is reduced (given wages stay at subsistence level). If od amount of land is used the profit share disappears. If wages also increase the squeeze gets even tighter.

Question 2:





Sellers supply more of a commodity (e.g. apples) once its price increases. As a result the supply curve is upward sloping. Buyers demand more of a commodity once its prices declines. This leads to a downward sloping demand curve. The place where both slopes meet is the equilibrium (supply and demand 1,p 1 and q 1). The vertical axis of the diagram represents the price while the horizontal axis represents the quantity of a commodity. A shift in demand can be both a positive or a negative shift. I illustrated both possibilities in the graph above.

If consumers suddenly enjoy the commodity (e.g. the taste of apples) more, the demand curve would shift to the right/up (from demand 1 to demand 2). This leads to higher prices (p 2) and a higher quantity (q 2). This is because the seller can now ask for a high price as people like it more. As the price is higher he is also able to supply more. In conclusion more of that commodity is sold to a higher price.

If consumers suddenly enjoy the commodity (e.g. the taste of apples) less, the demand curve would shift to the left/down (demand 3). This leads to lower prices (p 3) and lower quantity (q 3). This is because the seller cannot ask the same price if he still wants to sell his products as demand has decreased. Prices have to decline. Because prices decline the supplier is not able to produce as much as before and quantity also declines. In conclusion less of that commodity is sold to a lower price.

Question 3:

Italy can produce either 120 tonnes of olives or 7000 liters of red wine

Greece can produce 80 tonnes of olives or 2000 liters of red wine

The marginal opportunity costs are the derivation of the opportunity costs. The opportunity costs are the costs of the second best option.

marginal opportunity costs for (1 tonne of) olives:

Italy 7000/120 liters of wine = 700/12 liters of wine

Greece 2000/80 liters of wine = 200/8 liters of wine ..

-> Italy has higher marginal opportunity costs

marginal opportunity costs for (1 liter of) red wine

Italy 120/7000 tonnes of olives = 12/700 tonnes of olives ..

Greece 80/2000 tonnes of olives = 8/200 tonnes of olives

-> Greece has higher marginal opportunity costs

Italy has an absolute advantage in both goods.

Greece has a comparative advantage in olives and Italy has a comparative advantage in wine.

As a result Greece should produce olives as this is relatively cheaper in Greece and Italy should produce wine as it is relatively cheaper in Italy. After that both nations can trade and both benefit from each other.

One possibility would be that Greece is getting 240/8 (=30) liters of wine from Italy which would be better than the 200/8 they could originally produce. Italy could get 1/30 tonnes of olives which is more than the original 12/700 tonnes of olives they could originally produce instead of 1 liter of wine.

It shows that trade can even be beneficial if one nation has an absolute advantage in both goods.

Question 4:

Marx was convinced that capitalism would lead to repeated economic crisis which will deepen over time. He named three reasons for that. One was the tendency of the rate of profit to fall. He stated that the more successful capital will be accumulated the higher the downward pressure on the rate of profit is. If the rate of profit falls capitalists will not expand their businesses and thereby will not create new jobs. This will lead to an economic crises

The analytical illustration of the rate of profit is:

(s/v)/((c/v)+1)

s = surplus value

c = constant capital

v = variable capital

(s/v) = rate of surplus value

(c/v) = organic composition of capital

One can see that if c or (c/v) rises the rate of profit will decline. The derivation of the rate of profit with respect to c or (c/v) is negative.

As more capital is accumulated the higher gets the tendency of the organic composition of capital to grow. If the rate of surplus value is constant this will result in a falling rate of profit. If more capital accumulation causes less labor in certain industries the rate of profit will also fall as labor produces value.

Marx conceded that there are offsetting forces to this process. The rate of surplus value does not have to be constant but could rise, international trade could cheapen raw materials, the depression of wages could be below the value of labor and there could be cheapening of constant capital.

Nevertheless his theory can explain the ups and downs of the economy by changes in the rate of surplus value and changes in the organic composition of capital.

Question 5

The units of analysis in Neoclassical Economics are individuals and individual firms. Individuals (consumers) are believed to be utility maximizing and firms are believed to be profit maximizing. Neoclassical Economics is known for doing marginal analysis. They are looking at one unit and assume that the behavior also holds true for more units. It is using a deductive methology.

Question 6:

Land reform is taking away land from landowners and distributing it among many farmers. After that there are many farmers who have small pieces of lands. This is almost perfect competition. Neoclassical Economics suggests that this is the best market structure leading to efficient results. Every farmer can now perfectly take care of his small part of land and optimize the production process. Studwell said that economics of scale are not that important in agriculture and thus a lot of farmers having a small amount of land can actually work.

The revenues from the agricultural industry should be used for building an export orientated industry closely accompanied by financial institutions which can make beneficial manipulations for the industry (e.g. keeping exchange rate artificially low causing cheaper exports)

Question 7:

Control regimes are fiddling in the market and can cause inefficiencies. In Africa there are a lot of price differences between different regions and countries due to a lot of fiddling in the market by governments. This leads to citizens of one country going to another country to buy commodities. Another problem of control regimes is the control of the black market as they use that to generate further state revenues. Control regimes might be predating on their citizens to maximze their own profit. To what extend they do this strongly depends on their time horizon (= rate of discount). If the government knows it will not win the next election or there is a possibility of a revolution they will predate more to get as many gains as possible in the short term.

Also the way control regimes organize public revenue will tend to keep wages at minimum. They were mostly collecting public revenue from agricultural industries in form of a "indirect tax". State monopsies bought agricultural products at a fixed and low price and exported them for a higher price to other countries.The margin between those prices was so high that the population got very little money for their work and the state kept most for itself.

Bates model looks like this:

1st possibility:

public revenues - resources from predation, rate of discount

-> state predates -> citizens take up arms -> political order = 0, holds only in short term

2nd possibility:

public revenues - resources from predation, rate of discount

-> state protects -> citizens work -> political order = 1, holds in long term

Besvart.

2 Del 2

*Svar på **1** av følgende spørsmål (50%):*

Spørsmål 1: Forklar enten den vellykkede økonomiske utviklingen eller mislykkede økonomiske utviklingen i et valgfritt land, fra et 'evolutionary economics'-perspektiv.

Spørsmål 2: Velg et relevant teoretisk perspektiv å diskuter probelmet med økonomisk ulikhet, samt mulige botemidler.

Spørsmål 3: Diskuter den globale finanskrisen (2008-2009) i lys av en statsgjeldkrise, slik tilfellet var for Hellas og Island.

Skriv ditt svar her

Question 1:

I will demonstrate this using the example of Zambia. Zambia tried to build up a car industry behind massive barriers of trade. This strategy is often suggest in evolutionary economics. List said that a country should open its economy first to learn from other countries and get some factories. After that it should protect its industry by implementing heavy tariffs. This relies on the infant industry argument which says that in the beginning companies do not have the economics of scale to compete on the global market. These companies should be protected by tariffs until they reach similar economics of scales like companies in other countries. As a result once these industries have developed, countries should open their economies again. List suggested countries should let other countries do the same. He did say that this process can be painful but it would be beneficial for the countries economy in the long run.

This means Zambia was trying to implement evolutionary economic advice. Their project failed however. Evolutionary Economics tends to blame the West for pulling up the ladder and pushing for trade liberalization. This is basically List's argument of letting other states do the same as you did even though it might not be in your interest in the short term. According to Evolutionary Economics the West did not do that but tried to enforce trade liberalization on African countries after the West had industrialized themselves.

Evolutionary Economics also tends to blame the IWF and the World Bank for only giving out loans when countries liberalized their trade policy.

Both arguments are not really convincing as Africa is still on of the most protected places in the world when it comes to tariffs. This means that West must have either not been pushing very hard for trade liberalization or they did not do a good job. The IWF and the World Bank act mostly as lenders of the last resort which means they mostly provide help when the economy is already really damaged. As a consequence one can question if trade liberalization would further hurt an economy that is already at rock bottom.

In my opinion a significant problem in Zambia was corruption. This means that the government gave people close to them good and powerful jobs in the automobile industry in return to loyalty and help in the next election process. This is not a good market as there is clearly less competition which leads to inefficient outcomes.

One can also suggest that tariffs that being too high lead to too little competition as the carmakers have the market for their own. List argued too that as soon as certain economics of scale have been reached tariffs must be taken back in order too keep the industry competitive.

It also has to be noted that making cars is extremely difficult and requires a lot of human capital and different resources which most likely have to be imported. The Norwegian economist Reinert did emphasize that it is better for an economy to produce high quality goods which can be produced industrially than low quality goods which have to be hand made. Cars are most certainly a high quality good. He also suggested implementing tariffs to be able to produce such goods. This means Zambia was also following Reinerts advice by trying to produce high quality products behind massive barriers of trade. I however think that the quality of cars might be too high because of the resources and knowledge you need for producing them. To use Reinerts main example, it might have been easier to produce golf balls (still a high quality good) than cars.

It is also questionable if Zambian consumers were able to consume that product as prices have been high. Even though cars from other countries had to pay high tariffs they were still able to compete with Zambian carmakers as they had high production costs and much lower economics of scale. Obviously the quality of the cars was also lower than the ones of their competitors as Zambians carmakers have only recently entered the car industry.

Developments beyond their control eventually stopped any economic growth there was before. To understand this one has to understand where public revenues in Zambia and other African countries came from. They were mostly collected from agricultural industries in form of a "indirect tax". State monopsies bought agricultural products at a fixed and low price and exported them for a higher price to other countries. The differnce in these prices was the "tax". The oil crises in the 1970's in most developed countries caused exports to decline as oil prices were now considerably higher. This means that this "tax" got much less revenue as less states/companies were buying those exports. The soviet union backing out in the late 1980's/ early1990's also did not help as now there was no more military protecting the government. With the expectations that their rain of power might be over soon as they had to organize and win elections without the help of the soviet union, their rate of discount dropped leading to a smaller time horizon and consequently more predation. There was also less aid from the government which was a challenge for public revenues. Soon after the Soviet Union backed out also the US backed out intensifying the problems. This lead to the state in which Zambia (and other African countries) are now as their economy collapsed and never really recovered from those shocks.

Besvart.