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

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ANNEN INFORMASJON:

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

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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.

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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?

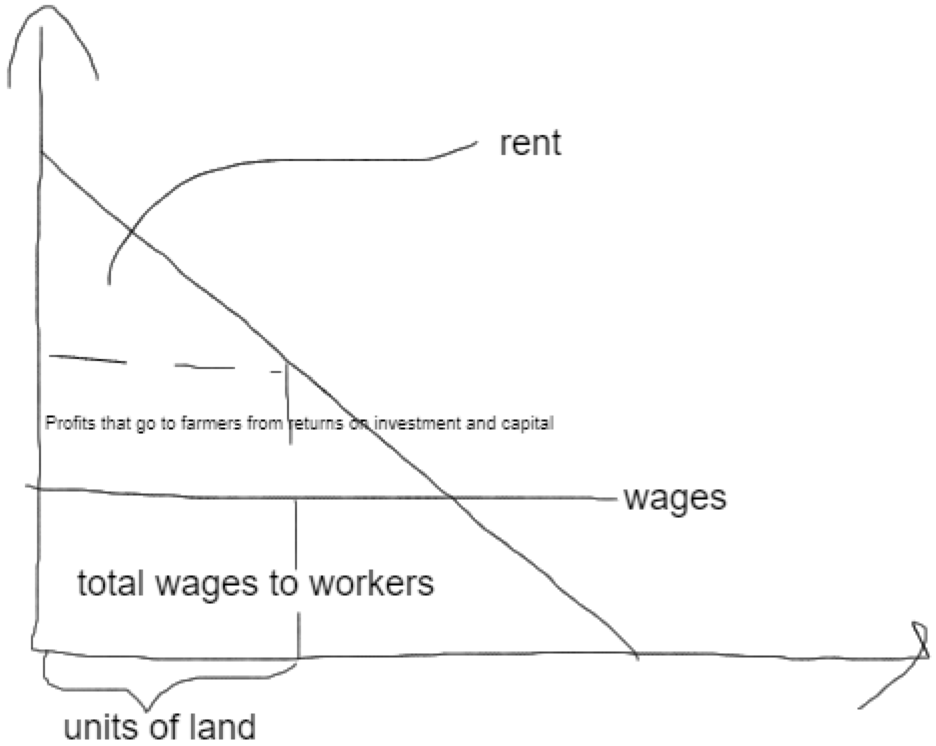
Spørsmål 6: Forklar hvorfor jordreform er et sentralt første steg innen økonomisk utvikling i følge Studwell (2013).

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

Skriv ditt svar her

1:

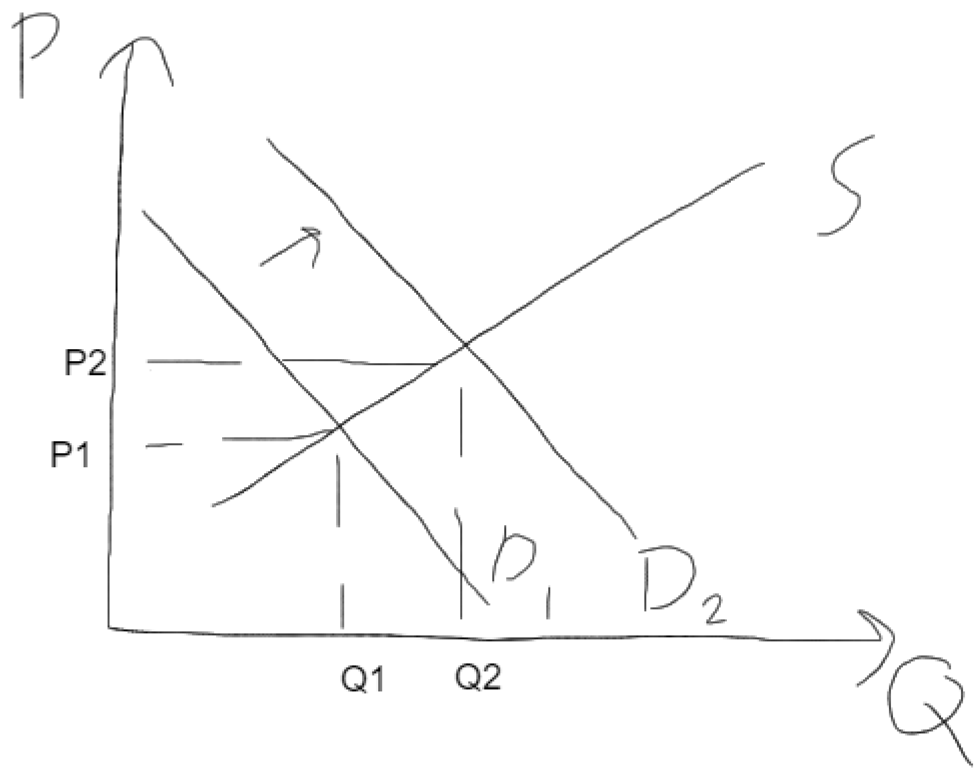
Ricardo's theory about rent says that the profits that would otherwise go to farmers will be squeezed by landowner's charging rent on their land. This theory is based on two assumptions. Firstly, some land is more fertile than others. Secondly, competition will make each farmers' profits the same. The theory can be illustrated like this:



In the illustration, we have the value of land on the vertical axis, and units of land on the horizontal axis. The curve on marginal value of land slopes downwards as units of land used increases, because the most fertile land is most valuable and as more land is utilized, less fertile land have to be used. A vertical line represents how much units are used, and the point where this vertical land crosses the curve for marginal value of land is the marginal unit of land - the last piece of land that will be utilized. If one draws a horizontal line between this point and the vertical axis, the rent that landowners will take is represented in a triangle, as landowners will take more rent from more fertile land. The rest of the incomes will go to farmers as a return on capital and investments, and to wages for workers. In the model, we assume all wages are the same, so the wages can be represented by a horizontal line. The rectangle below the horizontal line represents the total wages to workers, and the rectangle above the line represents the profits will go to farmers as a return on capital and investments.

2:

The equilibrium theory says that changes in supply and/or demand interact with each other to change the price of a good. A positive shift in demand can be illustrated like this:



In the model, we assume that the demand curve is sloping downwards because of the law of demand: a decrease in price will lead to an increase in demand. We assume that the supply curve slopes upwards of the law of supply: an increase in price will induce the producers to supply more.

A positive shift in demand, assuming that supply does not shift, will make the quantity produced increase (law of supply, and the price will increase. A positive shift in demand can for example happen by increased purchasing power of consumers or because the price of another homogenous good increases. The new equilibrium in the model will move upwards to the right. In a negative shift, the effect will be the opposite - quantity produced and price will decrease.

The neoclassical model of supply and demand, is a marginal model. Marginal analysis explains what happens at the margin - how even a small increase/decrease in supply or demand will affect the price. As in this case, a marginal shift in demand leads to a marginal change in quantity and price.

3:

Ricardo's theory about comparative advantage says that each state should produce the commodity where it has a comparative advantage. A state has a comparative advantage if it can produce a commodity at a lower opportunity cost than others. The opportunity cost represents the value of the choice you don't make - in this case, the commodity you don't produce. In this case, Greece has a comparative advantage in producing olives, while Italy has a comparative advantage in producing wine, even though Italy has an absolute advantage in producing both commodities. With combined efforts, they can produce the most if Greece only produces olives, while Italy only produces wine. We then have pareto optimality in production - they cannot allocate resources in way where more is produced. The opportunity cost can be represented in a table like this (numbers are approximate, not completely accurate):

	Italy	Greece
Olives costs x wine	58	25
Wine costs x olives	0,009	0,04

From the table, we see that the opportunity cost of producing wine is lower for Italy, while the opportunity cost of producing olives is lower for Greece.

4:

Marx' theory about the tendency for the rate of profit to fall is based on his labor theory of value. It is part of his explanation of why the capitalist system will always lead to financial crisis. The theory of the tendency for the rate of profit to fall says that financial crisis is part of the capital accumulation process itself. Marx' LTV says that the value of a commodity is equal to the labor it takes to produce it. Three presiseringer is needed in this case. First, it is only the socially necessary amount of labor that determines this value, as some will work harder and more efficient than others. Second, the skill-level of workers must be taken into account, so work that requires a high skill-level (takes long time to learn) is worth more (equal to how much more time it takes to learn the skill). Third, some supervisors/managers may be needed in production but they don't add to the value of te commodity.

As Marx believed that a commodity's value is based on the labor it takes to produce it, new investments in capital, will make production more efficient. Workers will then be superfluous, and the rate of profit will fall, as the rate of profit will fall relative to the organic composition of capital - the ratio of variable capital (labor) to constant capital (machinery and raw materials).

There are however some offsetting tendencies to this theory. Firstly, new investments in machinery can make labor work more intense, which will increase the value from labor as workers can produce more. Secondly, capitalists can depress the workers' wages, which will increase the surplus value. Thirdly,

When you include these offsetting tendency the theory about the tendency of the rate of profit to fall does not stand as strong. The conclusion seems to be that the rate of profit does not steadily fall, but goes up and down depending on the value of labor relative to capital. This is not necessarily a weak conclusion however, as the history of capitalism is a history af alternating booms and recessions.

One critique of the falling rate of profit theory is that it is based on the assumption that only labor adds to the value of a product. If one also include other variables into the value of a commodity, the entire theory falls. If, for example, capitalists can invest in machinery that will produce more with less workforce, they should be able to produce more and also increase their profits.

5:

Neoclassical economics focuses on individuals and exchange. One assumes that individuals are fully rational, which means that they have full information about the market and always makes decisions based on what gives them the highest utility. We then assume consumer sovereignty, as consumer's demand and production costs, is what determines the price of a commodity.

Neoclassical economics is also static, as it does not focus and history and economic development, but on equilibrium. It is materialist, as what drives produces wealth is land, labor and capital - not human knowledge and learning.

6:

Land reform is the first invention into taking a state out of poverty, according to Studwell. It involves expropriating large plots of land from landowners and redistributing it to farmers. In a poor state, land is usually owned by a small amount of the population, who derive incomes from farmers paying to work on their land. As in Ricardo's theory of rent, these landowners squeeze the profits from the farmers, who have no incentive to work hard and make the land as profitable as possible, because landowners will squeeze their profits anyway. By implementing land reform, a poor state can make the most out of what they already have - land and non-skilled labor. Land reform is however politically difficult, as the landowners usually have lots of economic power derived from their property. In China, land reform was done through Mao's socialist revolution by violently taking land and redistributing it to farmers. In the other successful east Asian states, land reform was backed by the US (who feared the spread of communism) to buy out landowners and then redistributing it.

Land reform is effective because it essentially creates a system very close to the neoclassical assumptions of the free market: many producers who produces almost the same product, and where entry-barriers are small. Another reason why land reform is so effective is because it enables "gardening". When you own a small piece of land you will take very good care of it, and make the most out of what you have, as opposed to if you own huge plots of land, you will not have the capacity to pay attention to details. The difference is that a "gardener" will make the most out of his small plot of land by being labor-intensive, while a big landowner will make the most out of the labor power he has by making labor as effective as possible and reducing wages as much as possible.

Through land reform, the state will produce much more, and can export their surplus goods, which will create profits. These profits will make them able to purchase machinery, which will take them into the next step, which is export-based manufacturing.

7:

The problem of "control regimes" is that they lead to a decline in public revenues, which leads the state to predate, rather than to protect its citizens. The control regimes include barriers to trade, which will make production less effective, as trading is a base for learning and acquiring new skills and technology. It also does not give producers a chance to create surpluses from export to invest further in capital. Another of the control regimes is bad macroeconomic policy. Because the population is so poor, there is not much to gain from taxes. What the governments in Africa has done instead is to create monopsonies by buying crops, and then exporting them - which in effect creates a tax on agriculture. This is however the opposite of "gardening", and does not create surpluses to be used for transitioning into manufacturing. Banks is another problem of these regimes, as governments think short-term, loans will be granted to those who will give them short-term profits. This is not effective, as loans should be granted to those in industries with a high potential for learning, which will create a virtuous cycle of increased returns on capital.

In general, control regimes are good for leaders who want to keep their, as it creates a web of economic power to a few wealthy people, while the general population stays poor. This is however bad for the economy, as the policies in control regimes is the opposite of what is needed to take the state out of poverty, and to produce political order.

When the governments can not derive much income from taxes it is more profitable for them to predate on their citizens by taking control of land resources, which is something most African states have large amounts of. Since property rights are not protected by the government, citizens will have to take up arms to protect their wealth. The end result is political disorder.

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

In this task, I will discuss economic inequality based on the Keynesian macroeconomic model. I will firstly present the Keynesian macroeconomic model, and then discuss how this model relates to economic inequality.

The Keynesian macroeconomic model can be presented in the following equation:

Y=C+I+G+X-M

where:

Y=GDP (gross domestic product - the overall activity in the economy)

C = private consumption

I = investment

G = government expenditures

X = exports

M = imports

The equation explains how the overall activity in the economy is equal to the aggregate demand of the economy. Using this equation, governments can manipulate the activity in the economy by utilizing expansionary or contractionary fiscal or monetary policy. Expansionary fiscal policy boosts the activity in the economy by either reducing taxes or increasing government expenditure. For example, by reducing taxes, consumers will have more purchasing power, which will increase consumption, leading to a higher GDP. In contractionary fiscal policy, one does the opposite. Monetary policy most usually involves manipulating the "sentralbankrente". Reducing this is expansionary, as loans will get cheaper and there is less to be made from holding money in the bank. This will increase consumption and investments. Increasing the sentralbankrente will have the opposite effect, and is therefore contractionary.

The effect on the overall activity in the economy, based on changes in one of the variables, will be bigger than the initial change because of the multiplier effect. For example, if consumption decreases, demand decreases. This means that less products will be bought, and firms will make less profits. Business owners will then have to fire some of their workers. As these workers will have less income, and therefore less purchasing power, demand will further decrease with the overall activity in the economy. We will then have a vicious cycle of decreasing demand along with decreasing activity. How big this multiplier is depends on how big the leakages in the flow of income are. One example of a leakage in the flow of income is the marginal propensity to save. When consumers gain more purchasing power, some of their newly acquired money will go to savings and some will go to consumption and investments. When more of the consumers' purchasing power goes to consumption and investments, the multiplier effect will be bigger because this is some of what drives economic activity.

The idea of how leakages in the flow of income relates to the multiplier effect, relates to economic inequality because poorer households generally use more of their income on consumption than the wealthiest. A poor household has to use almost all of their available income on buying commodities, such as food, clothing and rent. Their marginal propensity to save is therefore lower than a wealthy person. The consequence of economic inequality in Keynesian economic theory, is therefore less overall activity in the economy.

Keynesian economics can be said to have a basis in neoclassical economics in the way it emphasizes demand. Keynesian economics doe however contrast to neoclassical economics, as it argues that the government has an important role in manipulating economic activity to deal with recessions and to reduce unemployment. Unemployment is a big issue for Keynes, because you do not get to use the most of the resources available in the economy. Furthermore, Keynes argued that unemployment has severe effects on the individual. When one is unemployed for a long time, you lose hope of getting a job, your lose your purpose in life, and you have to depend on government welfare to survive. This may cause a further divide between the rich and the poor in the state. In this light, one can argue that unemployment has a cumulative effect as it becomes harder and harder to reverse the situation.

Based on Keynesian theory, one way for the government to increase the overall demand in the economy is income policy. By redistributing income towards poorer households, governments can increase overall demand because they use more of their money on consumption. A typically socialist way to do this is by increasing the taxes on the wealthy, and increasing government expenditure to provide citizens with free education, health care, to provide jobs and so on. Another solution is to reduce the taxes for the "general population" but not for the most wealthy. A progressive taxation, where you get taxed relatively more the wealthier you become, is likely an economic policy that Keynes would support.

A general expansionary economic policy will also have an effect if the government is in a recession, as it will create jobs and take people out of unemployment. The effect on inequality will not be as big if income policies are not implemented as well, as distribution does not change.

According to the model, increasing government expenditure is more effective than reducing taxes in manipulating economic activity, because government expenditures affect the economic activity directly, while tax reductions affect economic activity through increased purchasing power. As some of the increased purchasing power will go to savings, the effect on economic activity is not as big. Empirical research on the effects of increasing government expenditure, and reducing taxes, does however find different results on what is most effective.

To sum up, macroeconomic policies such as tax policies and government expenditures has an effect on the economic inequality in an economy. Economic inequality has a negative effect on the economy, as poorer households generally spend more of their purchasing power, as they have a lower marginal propensity to save. The Keynesian solution to the problem of economic inequality is to change the macroeconomic variables, either by changing to a more progressive taxation system, or to increase government expenditures in a way that will benefit low-income households.

Besvart.