



KANDIDAT

10024

PRØVE

POL2012 1 Teorier og modeller i politisk økonomi

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Opprettet av	Marius Swane Wishman

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Tillatte hjelpemidler: Ingen

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 forutsetninger 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 eksamen (f.eks. ved feil i oppgavesettet), vil dette bli gjort via varslinger i Inspira. 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 Inspira. 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: Anta 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

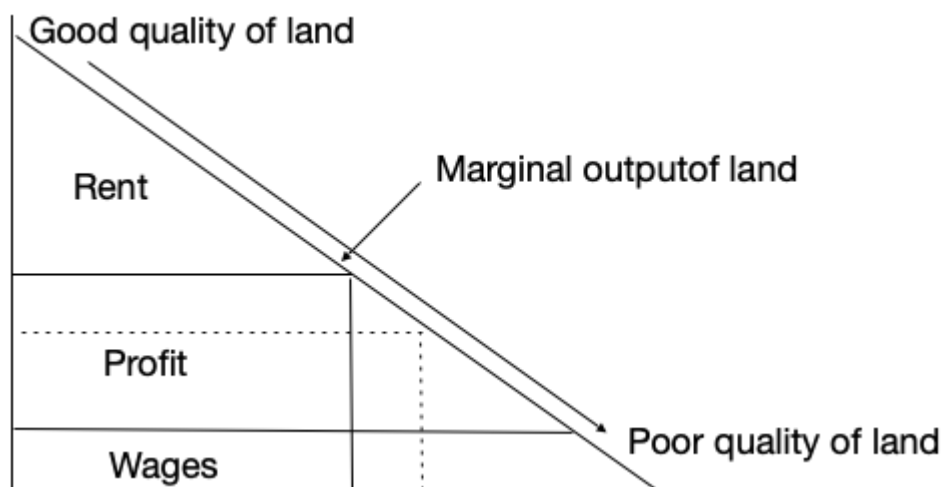
Spørsmål 5: Hva er de vanligste analyseenhetene i den neo-klassiske tradisjonen?

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: Explain Ricardo's theory of rent.**

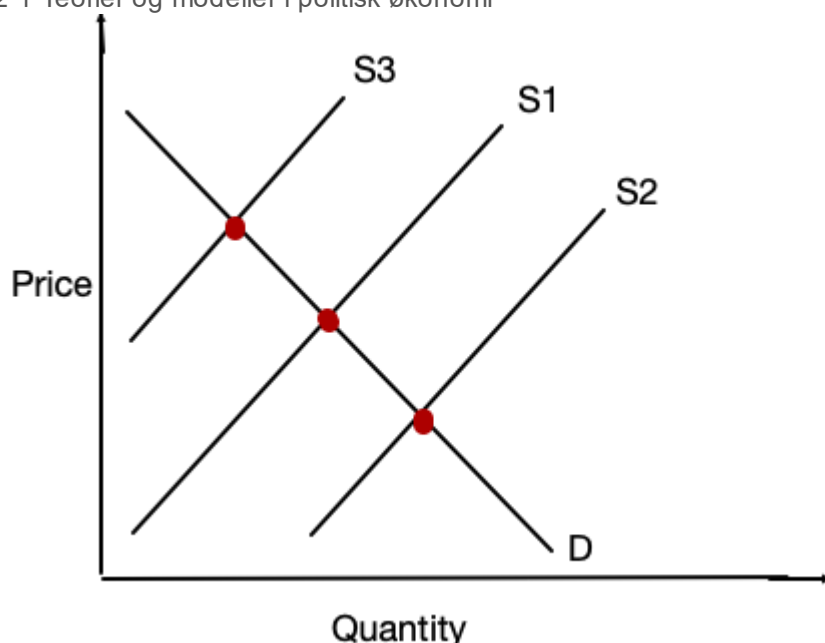
David Ricardo developed the classical political theory of rent. The theory states that rent is decreasing surplus value, which could otherwise be used for potential economic growth. The theory can be drawn out to provide an illustrative explanation:



Wages are kept at subsistence level because of competition. Even though a worker on high quality land will produce more value than one on poorer land, the one producing more value could not demand higher wages, because one of the lower paid workers would offer their work for cheaper. The quality of land is declining because there is a fixed amount of land, and not all of it will be the same quality. The good quality land will be used first, and then the more poor quality land will be taken into use when growth appears. However, as growth appears and more land is used, the capitalists will also have to pay to rent that land from the landowners, and they will miss out on possible surplus value, because wages can not be pushed further down. This is shown by the stippled lines. At the base of this theory lies the assumption that all individuals are profit-maximising, and this is the reason why they all do as they do, and the reason why rent damages surplus value, thereby setting a break on economic growth.

Question 2: Model and explain a change in supply.

The neoclassical theory is based on the law of demand, which states that demand increases as price decreases, and that demand decreases as price increases. This is because consumers are rational, utility-maximizing actors who will always maximize their consumption. They will buy more if they can, and less if they can not. A shift in supply can be a result of many factors. An increase can be caused by for example technological change, which can increase production. A decrease in supply can occur because of resource scarcity.



The model presents a constant demand (D), and three different levels of supply (S1, S2, S3). The red points, where the supply-lines crosses the demand, are the equilibrium prices. An equilibrium price is where price and demand is perfectly matched. As the supply shifts to the right, to S2, increasing the quantity of commodities in the market, the red mark in the cross with D places lower at the price scale. The opposite effect can be seen at the point where S3 crosses D, creating a higher equilibrium price where the supply is lower.

Question 3: Assume that Italy can produce either 120 ton olives or 7000 liters red wine, and that Greece can produce either 80 ton olives or 2000 liters red wine. Use Ricardo's theory of trade to explain potential trade between the two countries.

Ricardo's classical political economist theory of trade is based on opportunity cost. Opportunity cost is the amount of production that one misses when choosing to produce one more unit of a product. The opportunity costs of the two countries can be calculated:

	Olives	Wine
Italy	120 ($1w = \frac{1}{55}$)	7000 ($1o = 55w$)
Greece	80 ($1w = \frac{1}{25}$)	2000 ($1o = 25w$)

The table shows that Italy has absolute advantage in both olives and wine, meaning they have the capacity to produce more of them both. However, their opportunity cost for olives, which is that one ton olives costs 55 liters of wine, is relatively higher than for Greece, where 1 ton olives costs 25 liters of wine. Greece, on the other hand, has a higher opportunity cost of olives, because by making one liter of wine, they miss out on $\frac{1}{25}$ ton olives. Ricardo's theory says that countries should specialize in the products that they can produce relatively cheaper than other countries, and then trade the excess products. The potential trade combinations is called the terms of trade. The terms of trade for Italy and Greece could for example be for Italy to get anything between 54-26 liters of wine by trading anything between $\frac{1}{26}$ and $\frac{1}{54}$ ton olives with Greece. Italy would get one more liter on wine than if they were to produce it themselves, and Greece would get more olives than they could have produced themselves for that amount of wine that they are trading away. They both end up better off than if they were to produce both of the commodities themselves.

Question 4: Explain Marx' theory of the falling rate of profit

Karl Marx identified three features of capitalism that would lead to recurring economic crises. These are the theory of disproportionalities, the theory of underconsumption, and the theory of the falling rate of profit. As a business invest more in constant capital (machinery) in order to

bring their production costs down and become more competitive, the other businesses will have to follow in order to not lose all their customers to the other business. According to Marx, this leads to a general price fall of the commodity, because the value of the commodity is created by labor. Marx explains this with the labor theory of value, which states that everything that creates value can be traced back to the amount of labor used to make it. The other businesses will be forced to also invest to become more competitive, and the value of the commodity will keep decreasing. Because investments in constant capital is increasing, but the value of the commodities are not going up, there occurs a falling rate of profit. The problem is that the businesses don't stop investing, even though they collectively should. They just end up breaking even. Further, investments will decline when people see the falling rate of profit. Growth will stagnate, investments will decrease further, the system will not reproduce itself, and an economic crisis could occur.

Question 5: What are the most common units of analysis in the neo-classical tradition?

The neo-classical tradition analyses individual firms and consumers in an inductive manner. They make assumptions about the actors in order to create theories about their behavior in the market. The consumers are assumed to be rational and utility-maximising. Firms are assumed to be profit-maximising, and to not think in terms of utility. Together, these units of analysis work together to create the result of the analysis, which is one that shows a balance, also called an equilibrium, where the market responds to the consumers, and together, as rational individuals, they organize in a beneficial manner where economic resources are allocated as efficiently as possible. This analysis can be summarized with the concept of the invisible hand, which is thought to be the rationality of the individual, creating balance.

Question 6: Explain why land reform is a central first step in economic development according to Studwell (2013).

Land reform is usually the first step towards capitalism, and was achieved in Asia through violent measures, like how China did it, or through pressures from the US, who saw the successful outcome in China, and who feared the spread of communism, which is how Japan did it. The thought of a land reform is to eradicate poverty and give everyone work where they can earn money of the extra commodities they produce. Families all over the country will eventually have enough money to upgrade their house for example, which creates employment in construction, and creates the basis for an industrial sector which can be disciplined by the government to become competitive in the international market. The land reform thus creates demand for industrial commodities, and the production in the economy will develop and evolve.

This way of stimulating the economy follows Keynesian theory, where increasing demand is considered to be the recipe for economic growth. It also illustrates a pure neoclassical view of the market, with perfect competition.

Question 7: According to Bates (2008), what is the problem with what he calls "control regimes"?

According to Bates (2008), control regimes are problematic because they have a tendency towards predating. In Bates' book, the state can either predate or protect. What they choose to do, is determined by whether they are thinking long term or short term, and the result of their choice decides if political order becomes 1 or 0, if the state survives or fails. Thinking long term will provide the government with income because the people are paying for their protection, while thinking short term will allow the government to spend all the fruits of independence on themselves, but it will end shortly. The question in Bates' book therefore becomes: what decides if the state thinks short or long term? Control regimes can contribute to the explanation of why the state predate. A control regime is one that has a tendency to predate, because it would not protect its citizens on their own terms. This could lead to political turmoil and opposition, and the state would have no prospects for long term income. The short-term solution will be more economically efficient, and the state will predate.

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 diskutere problemet 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 2: Choose a relevant theoretical perspective and discuss the issue of economic inequality, and possible solutions.**

Keynesian political economic theory has its main focus on inequality. The theoretical tradition is based on inductive analysis of the periods before and after the Great Depression, a great economic crisis in 1929. Keynes identified unemployment to be the main reason for economic crisis. Although he did not deny that the market could potentially create an equilibrium itself, he famously said that "in the long run, we are all dead", which indicates that we should act by intervening in crises such as these, because as people, we were not able to think long enough ahead to see anything other than rational. In neoclassical theory, the economic inequality that results from unemployment is seen as necessary as a reserve army of labor keeps the wages down. The competition for jobs is important to keep the costs of labor down. Keynes, on the other hand, in similarity to Marx, sees the unemployment and low wages as a huge issue.

While Marx heavily focuses on the immorality of the capitalist system and the exploitation that drives it, Keynes focuses on the social and economic waste that results from unemployment. They both agree on one thing however, which is that the unemployment can lead to economic crisis through underconsumption. This advocates for less inequality. The idea is that businesses keep growing, while demand does not. Some political economic theories argue against this, like the classical political idea of Say's law, which states that aggregate supply = aggregate demand, because the production of the commodities creates jobs and wages to be spent on buying more commodities. This law does not reflect much of reality, however, because we have seen repeated economic crises and businesses going bankrupt. Thorstein Veblen's institutional theory of the leisure class provides a possible solution to the issue of underconsumption, saying that the overconsumption of the leisure class, or that warfare could create a balance between supply and demand. However, Veblen's does not favor any of these solutions, as warfare creates horrible conditions and overconsumption creates a social pressure that makes it impossible to ever possibly get satisfaction out of what you have, as you always want something more. With this, he is also rejecting the neoclassical assumption of rationality, that utility is always at its highest when consumption is maximized, and that increasing consumption leads to higher satisfaction.

The theory of Keynes seems more relevant in explaining the negative consequences of a lack of demand. Although Keynes does not place all his focus on inequality, it is a very important part of his solution to preventing economic crisis. The Keynesian solution can be demonstrated by an equation:

$$Y = C + I + G + X - M$$

Y = national income

C = consumption

I = investment

G = government expenditure

X - M = the balance of trade

Keynes' theory states that consumption is highly affected by unemployment. Unemployment is regarded by Keynes to be social waste. It is both waste of labor and production capacity, and it is waste of potential input to the economy, as represented by the C in Keynes solution. Consumption is an important part of the national income because it is an input of money, but also because it creates jobs. Because supply tends to increase as a result of capitalism's expansionary character, the demand has to do it too. As a result of profit maximization, capitalists will try to increase supply without increasing costs of production, which includes

wages. This will create what Keynes calls a vicious cycle. When workers are laid off, their income will decrease, and they will consume less. Less consumption means less production, which means even more workers will be laid off, consume less, and the cycle continues and an economic crisis occurs. This is where Keynes argue for government expenditure. Government expenditure is though be made through counter-cyclical policies. The state can spend money in a recession, and save money in a boom. This is do avoid deflation in the former case, and inflation in the latter. The expansionary policy works by reducing taxes for example, thereby giving consumers larger buying power. The contradictory works by increasing taxes and reducing economic activity.

The question of inequality shifts the focus towards the expansionary policy, where Keynes argues for by using the theory of the multiplier effect. The multiplier effect says that when you give people money, they will save some of it, and then spend the rest. The money that they spend will increase production somewhere else, which will create the demand for workers that will get their own wages. The money that these workers receive will then be spent somewhere else, which gives other people higher purchasing power. The effect continues like this until there is much more, maybe even too much economic activity, and the government could spend less by raising the taxes, earning back the money that they have lost by decreasing them. However, the intensity of the multiplier effect depends on how much the people who receive more money spend, and how much they save. Keynes identifies several factors that might affect this relationship between spending and saving, which he identifies as "leakages" from the "circuit of capital". The circuit of capital is the process between consumer spending and investment in further economic growth, and the leakages are points where money is taken away from the circuit, in the form of savings. As rapid circulation of capital is one of the five demands for capital accumulation (economic growth), as identified by Marx, the goal in a recession should be to avoid leakages from it. One of the potential leakages in Keynes theory is capacity to save. This is affected by a persons level of income. If ones´ income is high, they will be able to afford to thing more long-term, and save money for potentially bigger investments in the future. If a person with low income receives extra money however, the likelihood is bigger that they have unfulfilled needs and and wants that will make them consume more of what the people with high income are already consuming. The institutionalist economist Thorstein Veblen adds to the argument of an ineffective upper class, by providing the theory of the contentment class, which is a class that has enough money to provide for themselves through private arrangements. Because these people are not dependent on the state services, they consider them to be unnecessary, and they become unwilling to contribute to them by paying taxes. This poses a big threat to the welfare state and to the national income, which also weakens Keynes solution, which is based of government expenditure.

So, to avoid both social waste and economic crisis, Keynesian economic theory argues that it is best to keep consumers at a relatively high level of consumption, and to direct expansionary policy at the poor more so than the rich.

Besvart.