



KANDIDAT

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PRØVE

# POL2012 1 Teorier og modeller i politisk økonomi

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Opprettet av	Marius Swane Wishman

**i POL2012 høst 2021****Institutt for sosiologi og statsvitenskap****POL 2012: Teorier og modeller i politisk økonomi**

*Dato 29.11.2021*

*Eksamenstid: 09:00-13:00*

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:** 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?

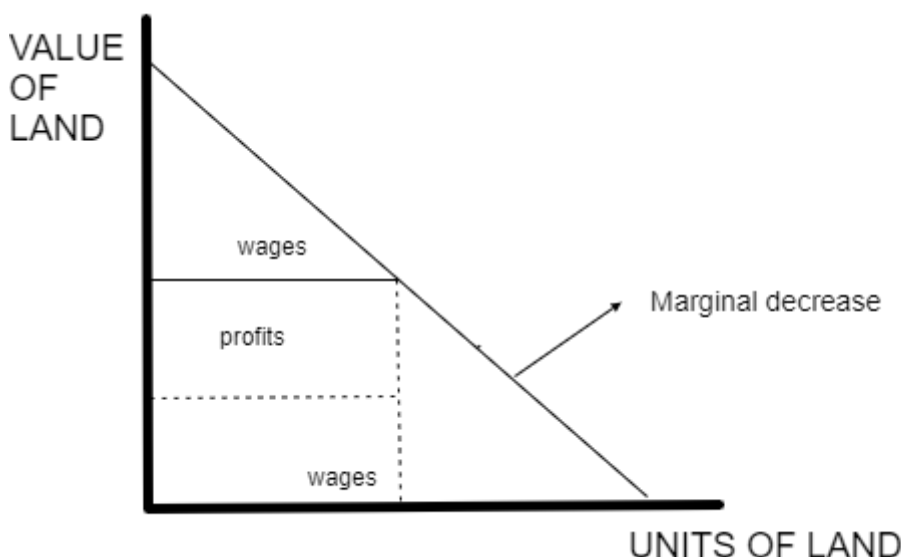
**Spørsmål 6:** Forklar hvorfor jordreform er et sentralt første steg innen økonomisk utvikling i følge Studwell (2013).

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

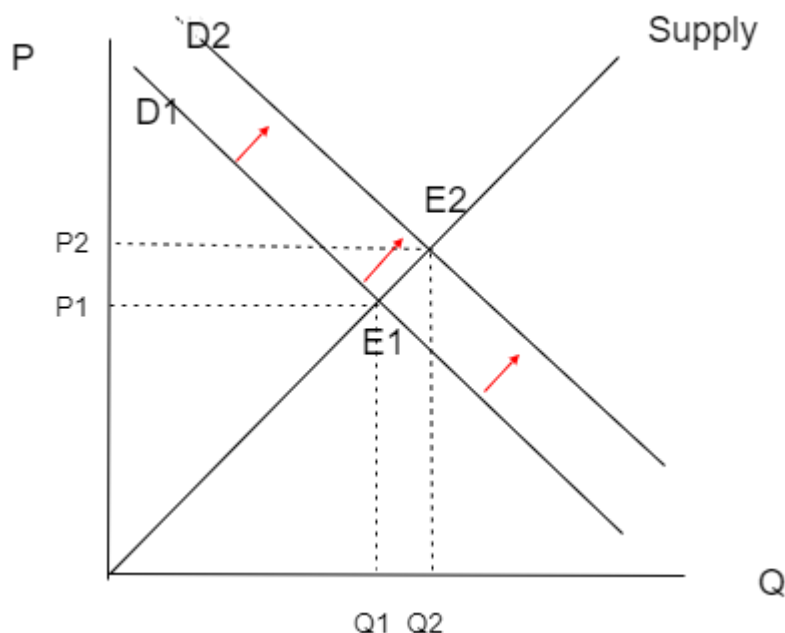
**Skriv ditt svar her****Question 1**

David Ricardo, as a classical economist, defined land as a good that worked as a basis of the capitalist system. However, land was not an unlimited good. That is why he defined the concept of rent as the capital paid to landowners so as to use or work in the land. This way, he also made a difference between three social groups: landowners, receiving rent; capitalists, receiving profit; and workers, receiving wages. When defining his theory of rent, Ricardo made a series of assumptions, like the variation the fertility of the land. According to Ricardo, when there is a small population, the most fertile lands are cultivated, giving more profit to the capitalists. However, when the population is growing, the less and less fertile land has to be cultivated, and the capitalists are receiving less income. The explanation behind this reasoning relies on the not so fertile land needing more means of production to get the same products than the fertile land. When there is an increase in the units of land cultivated, there is a decrease in the value thereof. This is what is known as a diminishing marginal revenue. If both of the products from the fertile and not fertile land are sold at the same price so as to be competitive, the profits of the fertile land would be bigger. The difference between the profits of the fertile land and of the not fertile land is what Ricardo calls differential rent.

We have to take into account also that the wages of workers are always kept at subsistence level.

**Question 2**

Let's assume we are working with a market of apples. As we can see in the graph, there has been a shift to the right of demand (meaning that the consumers are purchasing more of that good) from D1 to D2. That could have been motivated by the desires of wanting a healthy lifestyle, good marketing... An increase in the quantity of apples that are demanded (from Q1 to Q2) would cause the companies to increase the prices of apples in order to increase their profits, causing a shift from P1 to P2, finding a new equilibrium (E2).



### Question 3

	Olives	Wine
Italy	120 tonnes	7000 l
Greece	80 tonnes	2000 l

Using Ricardo's theory of trade, we can observe that Italy is better at producing both goods, so we would say that Italy has an absolute advantage in the production of olives and wine. But, as we have to find a mutually beneficial trade situation for both countries, we have to see which good is relatively cheaper to produce.

If we compare the ratio between the production of olives (120/80) and of wine (7000/2000) we can observe that the ratio is smaller in the olives. In other words, although Greece is worse at producing both goods, it is relatively cheaper for them to produce olives. Therefore, according to Ricardo, we could say that Greece has a comparative advantage in olives, meanwhile Italy has a comparative advantage in wine. Each of them would specialize in the good in which they have a comparative advantage in, so as to have a mutually beneficial trade.

Italy specializes in the production of wine, while Greece specializes in the production of olives.

### Question 4

Marx envisioned capitalism as a system based on the exploitation of the proletariat under the owners of the means of production (the bourgeoisie or capitalist class). Marx said that the growing feature of capitalism (accumulation of capital) would lead the system to suffer numerous periodic crises, until the collapse of capitalism, when the socialist revolution will success. Marx identifies some reasons behind these crises of capitalism, and among them we can find the theory of the falling rate of profit. This theory can be defined by saying that the profit of the companies starts to decrease once we have too many factors of production or too many competitors in the market. An excess of the factors of production will end up with the companies being less effective, and although there is still surplus value, the profit will be following a marginal decrease. Basically, capitalism's strongest point, that is the individual seek of profits, will be acting as its Achilles heel in this case. The falling rate of profits discourages the companies to keep seeking for expansion.

### Question 5

According to the neoclassical theory, the main unit of analysis would be the market, defined as where the goods and services are produced and exchanged for money. Neoclassical theorists mainly focused on this exchange, defending that the invisible hand of the market is the best

way to conduct an economy (Adam Smith). Ricardo went further and focused more on international trade. These theorists were not so in favor of the intervention or of the visible hand of the State, however, they recognized that this institution can sometimes play a role as an arbitrator of the interacting groups. So, apart from the market, neoclassical economics are also very focused on three economic actors: the State, the consumers and the firms.

A main feature of the neoclassical theory is its deductive nature, that is applying theoretical or mathematical frameworks to the real world. This characteristic would be strongly criticized by the other doctrines, such as institutionalism.

### Question 6

Studwell, in *"How Asia Works"* focused on developing the steps that some Asian countries had developed so as to become economic superpowers (like China) or followed a great economic development in the last century (such as Japan or Taiwan). The first key step that Studwell proposes is a land reform, understanding by that the expropriation of the land from the hands of the big landowners and redistributing it among the population. That way, these countries were having a lot of small owners that could work their own land, motivating them to be productive for their country. However, this was not an easy process, as some big landowners were not willing to give up their property. That is why some countries did it violently or with the help of external countries, like the United States. As these countries were mainly based on agricultural labor (there was almost no capital) the land reform was intended to have a big outcome of agricultural products, embrace protectionism until the industries are competitive enough and then start to focus on exporting the products (export discipline). By engaging in international trade, these countries were able to obtain more machinery and keep developing.

### Question 7

Bates dedicated his work to explain the failure of the regimes that were established in many African countries after their independence on the 1960s. The main reason why is the dominance of the elites, which predated their population so as to pursue their own private interests. In these states, the leaders carried out a series of measures that endangered the general welfare. Among them we can find a strong protectionism, that did not allow the population to import some goods and that ended up worsening their situation; or the establishment of state monopsonies, meaning that we have one single buyer purchasing the commodities produced. All these measures are compiled and defined by Bates as control regimes, denoting the strong control of the authoritarian state. Their disadvantages were, among others, the high costs of this system, the absence of effectiveness and the justified motivation of the population to take upon arms against the state that was preying on them.

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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 statsgjeldskrise, slik tilfellet var for Hellas og Island.

**Skriv ditt svar her****Question 2: Choose a relevant theoretical perspective to discuss the problem of economic inequality and potential remedies**

The problem of inequality has always been a key point in economic concerns. In this exercise, this issue is going to be discussed from a particular theoretical framework: the Keynesian perspective, as it has to do so much with this topic. This doctrine was established by the economist John Maynard Keynes in the 20th century.

Before starting, we have to clarify that this exercise is going to focus on the inequality regarding income and wealth on the first place, as we can find a huge variety of types of inequality: opportunity, gender, age...

The saying of "*the rich are getting richer and the poor are getting poorer*" that makes reference to economic inequality is not completely correct. It is a true statement that the rich portion of the population are getting richer, however, the poor people are also getting richer at their own path. The difference between these two groups is that the richer are getting richer way faster than the poor, increasing the wealth inequalities among them.

The basis of Keynesianism mainly rely on a strong intervention of the State in the economy. Keynes recognized that the neoclassical idea of the free will of the market and the invisible hand were not really able to tackle the real threats that the economy suffers, such as the unemployment or economic crises. These two threats in particular come hand in hand with economic inequality, as it is widely known that, in these recession periods, the differences between the rich and the poor are strongly accentuated.

During an economic crisis, Keynes identifies that what the society is experiencing is a crisis of demand. When the demand of an economy is decreasing, the companies suffer as they are not able to sell that much, receiving less profits and consequently having to fire some employees or cutting down their wages. The employees, that are also consumers, do not have as much disposable income as they used to, being forced to consume less and therefore decreasing the demand. Keynes defined this as a vicious circle, that sure will entail strong inequality.

The big potential remedy that could be implemented to outweigh this situation will be, according to Keynes, the intervention of the State in the economy in three ways:

**(1) Increasing the public expenditure:** by building more infrastructure, schools, hospitals... This way the State will be creating more jobs, helping to alleviate the concerning problem of the unemployment. Moreover, the Keynesian theory highlights that this would cause a multiplier effect, that is that the profit returns that will be obtained will be proportionally bigger than the investment made by the State. The effect will be bigger if the leakages of the circular flow of income are smaller: low tax rates, low imports and low saving rates.

**(2) Reducing taxes:** by reducing the taxes, the poorer people will be able to have more disposable income that they can spend so as to keep the economy running, making a pretty relevant contribution in reducing the inequality.

**(3) Reducing interest rates:** the banks will need to lower the interest rates so the people would be able to afford borrowing loans.

All these three measures constitute what is called as a contractive fiscal policy. Although these measures could be effective to fight the economic crises and unemployment, maybe they do not really help to solve the inequality problem, as both social groups (rich and poor) will be benefiting from this policies. That is why we also need to introduce measures that are specifically focused on fighting inequality, such as progressive taxation: this measure is in charge on taxing people proportionally according to their rent, so the rich will have to pay a bigger amount than the poor, making an important contribution in closing the gap among both.



On the other side, the State has to be very careful when making some regressive taxation, that is the taxes that affect more deeply the poor people than the rich. An example could be the carbon tax, as putting a price to carbon so as to switch to more ecological alternatives will undermine those people who cannot afford that green transition.

Keynes' quote "*In the long run we are all dead*" could also be interpreted as a way of saying that the economic problems need a solution in the short-term, as the poor people that are more affected by the income and wealth inequality need immediate solutions to keep going.

To sum up, economic inequality is a topic that poses a serious concern regarding the differences in wealth and income of the rich and the poor people. The doctrine of Keynesianism links that problem with some systemic elements present in the capitalist system: economic crises and unemployment, stating that the inequality is strongly accentuated when these events take place. As a measure to fight this inequality, the Keynesian theory proposes State intervention as the main resource, as the increase of the public expenditure, the reduction of taxes and of interest rates are said to alleviate the recession of the economy. Nevertheless, we also need to take more inequality-focused measures to actually tackle it, such as progressive taxation and, on the contrary, avoiding regressive taxation.

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Besvart.