



KANDIDAT

10001

PRØVE

POL2012 1 Teorier og modeller i politisk økonomi

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ANNEN INFORMASJON:

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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**1**

When discussing Ricardo's theory of rent it is important to start with Ricardo's own definition of rent. In the common language rent is often seen as the payment done for access of land. Ricardo's theory of rent uses the "rent" term in a slimmer fashion. When Ricardo talks about rent, he means land for cultivation of agriculture.

Thus some implication follows. The land will differ in fertility.

According to Ricardo the complication for the farmer of agriculture then arises. The farmer (capital-owner) must pay a wage to the worker tending to the fields of land. This wage cannot go lower than subsistence levels, as according to Ricardo the workers would not accept any lower wage. This wage can then not go lower than a static minimum level.

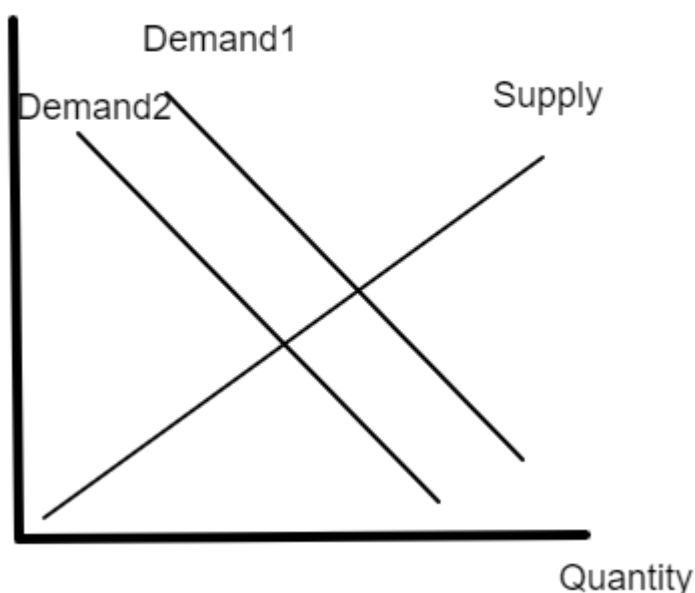
The landowner then takes rent for the use of his land. This rent is based on the fertility of the land, and the rent will be higher the more fertile the land is. As the farmer expands the production to cultivation of the less profitable land, where the profits reach the margin. The profit rate of the farmer will decrease as the landowner takes an increasing larger rate of the profits gained from the land, and as the workers wages cannot be budged further the farmers profits eventually is "squeezed out".

Ricardo was thus especially critical of the landowning class, as he viewed this class as an essential unproductive class. Whereas labor and capital is useful in a productive sense, the profits given to the landowner is seen as a leakage from capital. The landowning profits could according to Ricardo be more useful if i.e. given to the farmer(capital) who could use the extra profits in expanding productive capacity

2

A change in demand:

Price



Above is a Model showing a change in demand. For simplicity, to show what happens due to a change of demand, the supply curve is held constant. In real life the supply could of course be more dynamic.

We start by looking at the initial demand of the good in question. Let's say the good is a car. We see in the model that the price of the car decreases as the quantity of the supplied cars

increases. This is a natural development following the law of demand and supply. As more cars are supplied, more of the market actors are satisfied with their individual demand of cars. And following Jevons, theory of diminishing marginal utility (the more units, added the less value they will have to you), people will have less utility for buying an extra car for each car they own (should also be mentioned for realism, that most people will not hoard cars at huge quantities, making it evermore relevant).

Now why does the price of the car decrease as more is supplied? This all goes back to Walras concept of general equilibrium theory. In General equilibrium theory the demand will be responsive to the market of supply. This makes it necessary for prices to fall as a larger quantity is supplied as people will not afford buying more cars at the set price.

Now what happens when the demand changes? In the model above we chose to use cars as an example. So demand1 shows us the initial demand. Now let's say public transportation is expanded. The demand for cars will change as more people will take public transportation in use instead. This can be said to be the substitution effect, and shows the elasticity of the demand for cars. Following this we see the new demand-graph, demand2.

In demand2, the new demand follows the same direction as demand1, however the starting price point of where cars are demanded is lower. With a new substitute for transport the demand for cars is lower, and as so the price will also have to decrease, and reach lower levels of prices compared to the same level of supply as earlier.

The exchange price-point where trade happens is where demand meets supply. This is the equilibrium point of where trade happens. From this we can notice that pre-demand-change, the price of cars was higher. However following the change of demand (loss of demand for cars, following expansion of public transport), the price of cars responds to this demand-change, by decreasing.

3

In this example Ricardo's theory of comparative advantages in trade is highly relevant. The basics of Ricardo's thought stems back to Adam Smith's theory of specialization. The thought that one is best served splitting production tasks into specialized areas. Smith used the example of a pin-factory where the factory productivity increased as each individual worker where given a small specialized task in the creation of one pin, instead of each individual doing the entire pin-making process by themselves. Ricardo took this to also be relevant in the production of nation states. It was beneficial, according to Ricardo, for one nation to concentrate their productivity capacity into one area of production instead of trying to produce everything by themselves. He was thus a supporter of international free trade, where each nation could use their strength into production, whether it be geographical strength, resources, labor availability or any other particular strengths.

In this example Italy have an absolute advantage in the production of both olives and wine. This means that they in theory could concentrate their production into either, and they would be more efficient than Greece in production. However, Ricardo would advocate for Italy to entirely put their production into the production of wine and Greece olives. I will explain further.

To find which product you should put your productive capacity into, it is important to find the lowest marginal opportunity cost of each product. This essentially means how much would Italy lose by putting their entire production capacity into wine, compared to olives. Calculating this makes it apparent that Italy has a huge comparative advantage in the production of red wine, and thus Greece in olives. Italy has the lowest marginal opportunity cost in producing wine. The sacrifice of not producing olives is marginal compared to the advantage of concentrating their production into wine. For each extra ton of olives Italy were to produce, the production of wine would increase by far more.

Both countries will therefore find it beneficial to concentrate their efforts into one production each. Italy wine and Greece olives. Greece would then be able to trade wine at a cheaper rate per olive than if they were to produce it themselves. And Italy will gain from a large trade surplus in trading the wine for olives.

4

Marx's theory for the tendency of rate of the falling rate of profit is one of Marx' arguments in explaining why capitalism is doomed to fail. According to Marx, as the capitalist business grows, the rate of profit compared to maintenance/production cost will decrease. This will then disincentivize the capitalist in further expansion of the business. The capitalist will see the profit rate falling, and instead of investing further capital into the productive economy, will seek to further their own self-interest.

The individuals search for economic gain is thus the fall of the economic development. The economy will then fail as a result of the individual capitalists interest will be prioritized, instead of economic development.

5

In the neoclassical school, the unit of analysis is at the individual level. Neoclassical economists largely depend on marginal analysis, the analytical reasoning developed by Menger and Jevons. Marginal analysis is based on incremental changes, meaning small changes at the micro scale (individual level). This means that in the neoclassical analytical reasoning things such as consumer behavior on the individual level is in focus.

The neoclassical analysis operates with the assumption of a "rational individual" whom seeks their own economic self-interest, also called "homo economicus" = "the economic man". This rational individual will always seek the option that is in their own self-interest and operates with perfect information.

6

In his book Studwell shows the disparity of economic development in east asia, and especially the differences in economic development between south-east asian countries (such as Malaysia, the Philipines and Thailand) and north-east asian countries (such as South-Korea and Taiwan).

He starts by first underlining the importance of land-reform in agriculture. Studwell shows that the countries where radical distributionary land reform were implemented had a much better starting point in economic development. In countries where land was forcefully distributed from major "feudalish" landowners to the farmers themselves generally gave better yields of output. When the rent of land was not concentrated into the hands of a landowner, the farmers would have an output higher than subsistence levels and had the capital to further develop their own agriculture.

He also underlines the fact that the productivity of "gardening agriculture", often tended to yield better results in form of output than production en masse.

The increased output following the land reforms then had synergy effects in later giving surplus capital for investing in manufacturing. As the output increases above subsistence levels, the capacity of investing further profits into productive capacities increases.

7

Control regimes

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****Introduction**

In this answer I will use a Marxist theoretical perspective in discussing the problem of economic inequality. Economic inequality has traditionally been central focus of analysis within Marxist analysis, and for this reason the Marxism is highly relevant in discussing the problem.

From a marxist perspective, what is the source and effects of economic inequality? Should it be dealt with, and if so how?

The capitalist labor market: a source for inequality?

Marxism was initially based on Karl Marx critique of capitalism, and its structures. Economic inequality is ultimately based in the structure of capitalism, according to Marx. Capitalism's mere existence is based on the separation in social classes reflecting the factors of production.

1. A working class(proletariat) - whose subsistence depends on selling their labor to a capitalist
2. Capitalist class (the bourgeoisie) - the capital owner whom purchases labor for production in a labor market.

The capitalist class then purchases the labor of the working class, whom performs labor on behalf of the capitalist. The worker performs the labor in exchange for a compensation in form of a wage. Wages are the usually the largest expense of the capitalist, and following this they will try suppress the wage to the minimum level, in order to seek maximum profit.

Here it is relevant to mention the Labor theory of value. The labor theory of value in summary, is the idea that ultimately the value of production is a result of all the labor put into it. In a capitalist mode of production, the wage is what we call necessary labor, and the profits made by the capitalist is the surplus value. Marx calls this extraction of surplus value exploitation.

The capitalists capacity to suppress wages is largely due to what Marx calls the "reserve army of labor". This "reserve army of labor" is the unemployed and those interested in performing the labor in exchange for the wage. If the worker is easily replaceable, the worker will have little power in negotiating for higher wages.

This shows an inherent power-relationship between the bourgeoisie and the proletariat within a capitalist economy. The proletariat in many ways live at the mercy of the bourgeoisie. Economic inequality is then according to Marx, rooted in the class-relationship between the capitalist and the worker. The worker out of need for supporting their subsistence have to perform labor for the capitalist, who has no incentive to pay the worker more than the absolute minimum. The capitalist also has no interest in a fully-employed populous as this would shift the power-dynamic in favor of the workers.

This gives us an interesting dynamic. The working class depend on selling their labor for survival, yet the capitalists do not benefit from all workers being employed in a productive capacity. A logical conclusion to this would be that the capitalist fundamental depends on economic inequality, as they would not be able to extract surplus value from the workers labor, without a competitive labor market. The Marxist perspective then leads us to the conclusion that the exchange that happens between a worker and the capitalist, in a capitalist labor-market, is a source of economic inequality in itself.

The question of private property

Embedded in the capitalist economy is the thought of private property. Most, if not all, economically liberal economists agree on one need for state intervention: The need for defending private property. Now how about Marx?

Marx sees the state as essentially the protector of the interest of the capitalist class. This is underlined by the strong tradition of property rights in the modern state.

Marx hereunder understands capital as property. The state is therefore an obstacle in achieving economic equity as it defends the capitalist class continuation of extracting surplus value from the fruits of the working class labor.

Then how is it possible to counteract economic inequality, if the state essentially perpetuates it through defending property rights? Must property rights be abolished?

Collectivization

One possibility is collectivization and planning. "From each according to his ability, to each according to his needs" as Marx put it, was essentially a thought of collectivizing the production and profits of said production. If the exploitation of labor is an essential part of a capitalist society with private property, the answer could be the abolishment of private property itself. This of course comes with challenges. Huge collectivization efforts such as seen in the Soviet Union, has not been problem-free. However, we will entertain the idea as not to derail the task at hand.

Collectivization of the means of production could for example be through a state function. The state could operate not in adherence to principles of maximizing an individual capitalist profits, but for they wider populous at hand. The market economy's production and distribution mechanism, could be replaced by state-planning, which could produce results more based on universal equity than individual profits. The question however rises if this can be done effectively enough to satisfy demands. Neoclassical thinkers would deny a possibility of this. Losing the pricing mechanism, and the responsiveness of supply and demand which a market economy gives us seems a great loss. However there is no doubt that if it could be implemented effectively, it would yield better results in regards to Marx ideal of equity.

Now what about the collectivization of production in the form of worker-owned co-operations. This is a phenomenon which there already exists examples of under capitalism. Worker-owned co-operations operate by eliminating the existence of a ownership-class within the enterprise. The workers all own a share in the company, and as such the surplus value is not extracted by a capitalist but distributed among the workers themselves. This would definitely challenge the dynamic of capitalist class vs working class, which we have already established is a fundamental source of economic inequality in the capitalist economy. However, it remains that this can be done within a

Conclusion

To summarize the Marxist perspective leads us to believe that economic inequality is a natural part of the capitalist economy. The relationship between the capitalist bourgeois class and the working class proletariat, and the exchange that happens between them is essential to the reproduction of economic inequalities.

The solution to mitigating the economic inequalities could be a collectivization of production and planning. This could happen through a state function or worker owned co-ops. However, this is not necessarily easily done.

Besvart.