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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).

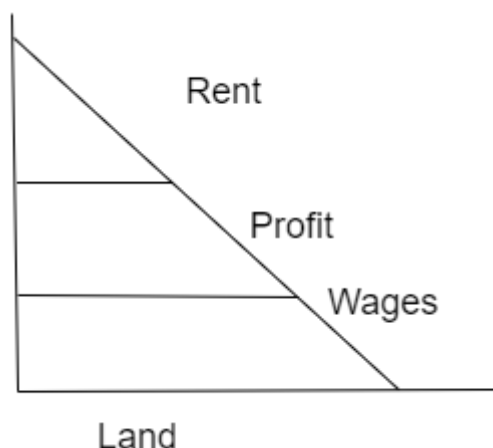
**Spørsmål 7:** I følge Bates (2008), hva er problemet med det han kaller 'kontrollregimer' ('control regimes')?

**Skriv ditt svar her****1: Ricardo's Theory of rent**

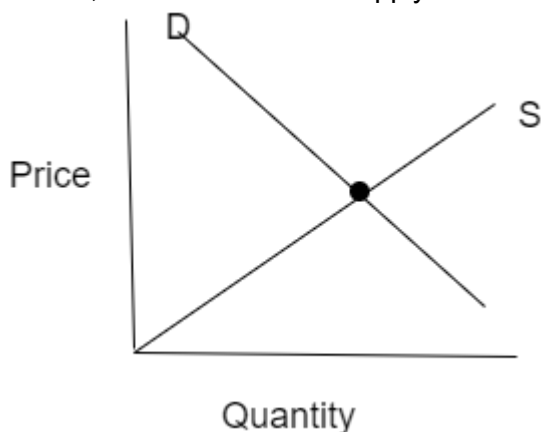
David Ricardo was a big contributor to classical economics. He saw rent as something that would impede economic growth. To explain why he thought so, we first need to understand that he had some assumptions. One of these was that the society has three classes: The capitalist, the landowner and the worker. Also, land in this context is seen as fertile land where a farmer can produce goods. Ricardo also meant that the landowners interests is always opposed to the interests of the other classes.

His theory suggest that the wages for farmers remains constant, regardless of how much a farmer can produce. This happens so that a farmer with less fertile land, will not be able to take on more fertile land for a lower wage. Therefore, Ricardo thinks that the wages remains constant regardless of how much revenue they can produce. Ricardo meant that rent has a tendency to eat away at the profit. The profit could for an example go into reinvestment or in taxes for the government. But the rent will keep the profit in the landowners pockets and therefore impede economic growth.

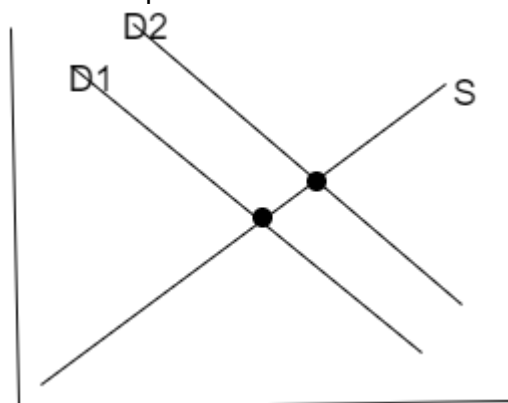
We can draw the model like this:

**2: A shift in demand**

The theory of supply and demand suggests that if the supply of a product goes up, the demand will fall. The idea of an equilibrium is central. This is where supply and demand meet and we get a stable price. The Neoclassical economics believes that the market naturally will tilt towards an equilibrium. Demand can be inelastic or elastic. If it is inelastic, a shift in price of a product will not cause big changes in the demand. This can for an example be cigarettes. This is because a shift in price will not necessarily lead many who are addicted to cigarettes to stop. Salt is also an example of an inelastic demand, since there are no other product can than substitute it. If the demand is elastic, a shift in price can have big effects on demand. In this model, I will demonstrate supply and demand.



Here, I have drawn an example of supply and demand. Where supply and demand meet, is where the price is stable. Here is the equilibrium.



In this drawing, I have drawn a shift in demand. In this example, the demand has increased. Here we can see that D2 (the increase in demand) has caused the price to increase.

### 3: Ricardo's theory of trade

According to Ricardo, it would be the most beneficial for every country to trade, even though they have absolute advantage in two commodities. This is because he believed that division of labor and having a country specialize in an area would benefit everyone. If a country has a comparative advantage in a commodity, it means that their opportunity cost is greater relative to the other country. Italy can produce 120 tonnes of olives, while Greece can only produce 80 tonnes of Olives. Italy can also produce 7000 liters of red wine, while Greece only can produce 2000 liters. Italy has an absolute advantage in both, but according to Ricardo, Italy should still trade with Greece. If we divide the amount these countries can produce of wine in liters, with olives in tonnes, we can find out who has the comparative advantage in producing wine. Italy will lose out on producing 18 liters of wine for each more they would produce olives. Compared, Greece will only lose out on 4 liters of wine. Therefore should Italy produce wine, and Greece should produce olives.

	Wine	Olives
Greece	2000	80
Italy	7000	120

Greece	$2000/80$
Italy	$7000/120$

### 4: The falling rate of profit

Marxism's focus is on analyzing how the capitalist economy functions. The theory of labor value is one of the big contributions we need to understand before we can explain his theory of the tendency of the falling rate of profit. The theory of labor value says that the value of a commodity depends on the labor put into it. Marx also assumed that the economy will fall into recessions and economic crisis. He thought that this would happen as a result of disproportionalities, underconsumption and *the falling rate of profit*. The falling rate of profit concerns constant capital, variable capital and surplus value. Constant capital can for an example be machinery. Variable capital is wages.

In this example, we can think of a 8 hour long work day: in 6 of those hours, the worker has earned his/hers wages, and for the last 2, they have generated surplus value for the company.

income

SV

$\text{income} = C + V + S$ . The total income will be constant capital + variable capital + surplus value. According to Marx, the tendency of profit to fall is caused by the investment in constant capital: machinery. The machinery will cut production time and maybe even remove the necessity for labor. With the labor theory of value in mind, this will lead to the loss of value in their commodities. The falling rate of profit looks like this:

$$\frac{S/V}{C/V + 1}$$

A way for the capitalist to avoid a loss of profit, is to either cut wages or increase productivity.

### 5: Common units of analysis in neo-classical tradition

The most common units of analysis in neo-classical tradition is the analysis of the consumer. The consumer is seen as the driving force of what a company might choose to produce. The consumer is also the one who decides how much they are willing to pay for a product. The consumer is also seen as rational and wanting to maximize his or hers utility (satisfaction).

### 6: Why is landreform a key concept in economic development?

According to Studwell, countries like China in Asia did three important things in order for the economy to grow. First, they had the focus on landreform, then evolved into manufacturing and they had control over the finance and investments in the country. Landreform is a key concept in economic development because it gives room for further development. It gives everyone a chance to produce on land and maximize their production on the land. What the government did in several countries in Asia, was to seize land and spread it so many more people had land they could produce on. According to Reinert, this is seen as producing low-quality products, since they have a steep learning curve and does not necessarily take much skills to learn. What these countries in Asia did, was to wait to go into the global market until their own economy was doing good and where they could move away from low-quality activity to high-quality activity.

### 7: The problem with control regimes

The problem with Control Regimes according to Bates is the leaders of these states has a tendency to think more short term rather than long term. They wish to see their "fruits" as fast as possible, rather than trying to build up the economy from within - instead they stick to low-quality activity and compete in the international market with these.

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:****Economic Inequality and Keynes**

For this essay, I will discuss the problems of economic inequality from the theoretical perspective of Keynes economics. The problem of inequality has become particularly focused on in modern economics as a way of showing that it has both social, and economic consequences. However, for this essay I will focus on the theories of Keynes that concerns the circular flow of income. I see this as relevant for the functioning of a capitalist economy as whole and I will use this theory as the argument that inequality is something that can impede economic growth. My focus will be on national economic-inequality, and not the global economic inequality between countries. First, I will present shortly how Keynesian economics emerged, then the circular flow of income and how I believe economic inequality will reduce this. After that I will try to suggest some remedies, again with Keyanism in mind.

Keyanism emerged from the Great Depression in 1929. Many people became unemployed and there was an economic crisis. Keynes suggested that the economy needed government interventions to avoid economic crisis. He believed that the government could control the market through Fiscal policies, Monetary, Investment and businesses and through controlling income. His focus was particularly on wanting to eradicate involuntarily unemployment. Even though Keynes operated in a neo-classical framework, he did not believe that the market necessarily would balance itself without state intervention or regulation.

Economic inequality can reduce the circular flow of income and therefore reduce/impede growth or cause economic crisis. The circular flow of income can simply be described as the flow of money between firms and households. A person works for a firm and earn an income. With this income, the household can buy products from the firm. This is the circular flow of income. However it is not that simple and there is more factors involved in this flow. There is also ways for this circular flow of income to be reduced. Keynes identifies three leakages: The household might choose to save money, which keeps liquid money out of the loop. The household might spend their money on imported goods, which leaves little for the local businesses. Or they will pay taxes. With these leakages, we can identify three injections that can be done: The government can increase their expenditure, the businesses can choose to export or banks and investors can invest. These can be identified as other elements in the circular flow of income where governments, banks, export and imports also are important. So how can economic inequality reduce the circular flow of income?

There are many reasons for why economic inequality might occur, but lets say that a company tries to push down wages of a worker. The worker will then have less money to spend on goods and services, which then again lead to a loss of revenue for companies and also a loss of taxes for the government. This can then lead to an increased reduction in wages and government expenditure. This can also lead to a decrease in capital accumulation - the driving force in a capitalist economy. Capital accumulation relates to how the economy or firms is able to reproduce itself and for this, one needs capital accumulation in order for the company to hopefully re-invest in its own company.

There is also the element where the general economic activity can slow down because of the multiplier effect where one person has less money to spend on products.

Economic inequality does not necessarily mean that people don't have money to spend, but with big economic inequality, there will be some people who have more and some that has less to spend, My focus has been on those who has less money to spend.

Economic inequality is a complex problem and to find remedies is difficult. If I were to think in a Keynesian perspective, the state should intervene to avoid the big gaps between rich and poor. This can for an example be through control of income. And even though Keynesian economics



don't mention it, a solution for economic inequality could be through "borgerlønn" - a given amount of money, that everyone in a nation gets regardless if they are rich, poor, working or unemployed. Another way to reduce economic inequality could be through taxation. The government could choose to tax the rich more, and the poor less, leading to less inequality.

To conclude, economic inequality is not good for the economy, since this means that someone will have less money to spend on goods and services. This will lead to a reduction in the circular flow of income and can reduce the economic growth in a nation altogether. What remedies can be used in order to reduce or eradicate economic inequality? From a Keynesian perspective, I conclude that government interventions is needed with the most focus on fiscal policy.

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