



KANDIDAT

10021

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

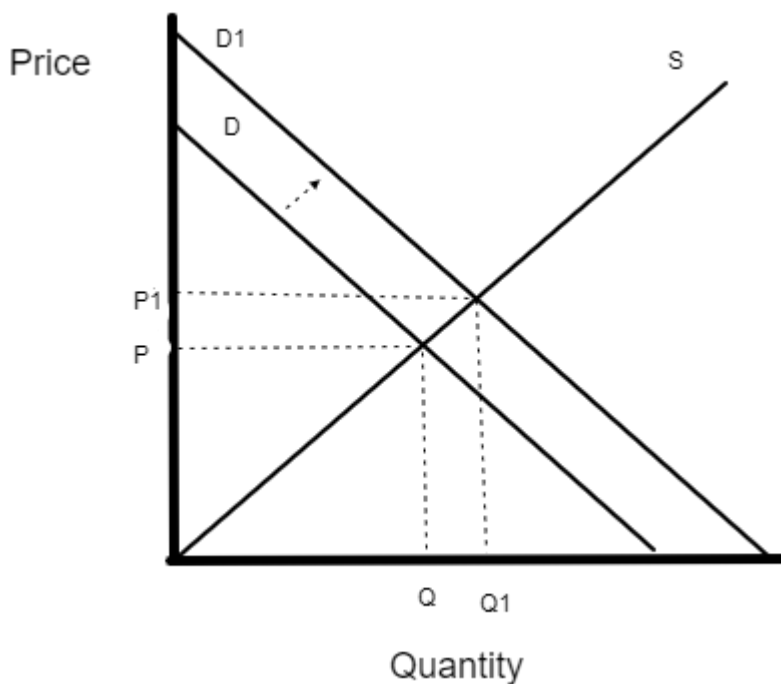
Spørsmål 5: Hva er de vanligste analyseenhetene i den neo-klassiske tradisjonen?

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**Question 1:**

Ricardo's theory of rent, is a theory within the classical tradition of economics, and it builds on the assumption that the interest of landowners is opposed to the interests of every other class in a capitalist society. He proposed a categorization of classes and divided into three separate categories: capital owners, landowners and workers. As landowners don't contribute directly to the production of goods and services the rent they take out on their land is pure surplus. Rent then eats out of the surplus of capital as workers wages are assumed constant because their wages are determined by the output of the marginal labor. To explain this we need to imagine a farmer who hires 20 workers to work his land, the last worker he hires will naturally be working on the plot of land that yields the least amount of output, as it is naturally to assume that the farmer wants to grow his crop on the most fertile land first, and then occupy that with the first worker he hires. The last worker is the marginal laborer, and his output determines the wage levels for all the other workers, regardless how much more output they produce. This is because of competition. If the first laborer wants higher wages, the marginal laborer might offer his services on the most fertile plot of land, but for the same pay as he gets on the last plot of land. So, workers wages are constant. Therefore, rent takes out of capital surplus, thereby stifling economic growth as capital owners have to give away a part of their profit to rent.

Question 2:

Above I've drawn a model that depicts an increase in demand ($D1$). The new demand line has shifted to the right of the original demand (D) which constitute a new equilibrium state ($P1, Q1$). The equilibrium state is where demand and supply meet and where prices are stable. Since the new equilibrium ($P1, Q1$) is at a higher point on the price line ($P1$) we can conclude that the stable price for that given commodity has increased. This follows the law of demand, that an increase in demand for any given product, given it is a product prone to elastic demand, gives an increase in price. According to neo-classical theorists supply will eventually catch up with the increased demand and drive the price back to its original equilibrium (P, Q ; the general theory of equilibrium)

Question 3:

Italy has an absolute advantage over Greece in producing both olives and red wine. According to Adam Smith, a nation that has absolute advantage is more interested in trading and

therefore Italy should be willing to trade with Greece, given that they have the trade superiority in this example. Ricardo on the other hand, thought it was important for nations to specialize in producing a product, in which, they have a comparative advantage. Comparative advantage is when a nation can produce something at a lower opportunity cost (what do we have to sacrifice of one product to produce the other), meaning that in this example (with only two nations and two products), both Italy and Greece should figure out which product (olives or red wine) they have a comparative advantage in, by calculating their respective opportunity cost for each product. If we want to figure out how much olives a bottle of red wine costs we do as follows:

Red wine:

Italy: $7000/120 =$

Greece: $200/80 =$

Olives:

Italy: $120/7000 =$

Greece: $80/200 =$

It's been a long time since I had division in school, so my math knowledge is terrible. But exactly what they come out as, is not important to make my point. According to Ricardo, Italy need to focus on the product in which they experience a lower opportunity cost. A question to ask is then: How many olives do we forego by producing one bottle of wine? If that number is higher than what Greece have to forego, the Greeks should focus on the wine, while the Italians focus on olives. If each nation focuses on the product with lowest opportunity cost, and rather trade with the nation that produces the other product, both nations are benefiting according to Ricardo. Therefore, international trade where each nation specializes in their respective competitive advantage leads to a more beneficial option for economic growth.

Question 4:

The tendency for the rate of profit to fall, or the theory of the falling rate of profit is a theory proposed by Karl Marx, explaining why capitalist societies are prone to repeated recessions. To explain the theory we first need to understand where the value in a commodity comes from. According to Marx, value is created by labor (The labor theory of value). Materials have value in itself, but it doesn't create value, only labor, through the process of work can add value to a commodity. In a capital society, which according to Marx, is driven by capital accumulation, it is paramount that capital owners realize *surplus value* from their laborers (what Marx called: *variable capital*). Imagine a worker that works 8 hours a day, 5 of those hours are spent producing output that covers that workers wages, the remaining three hours the worker is producing surplus. Now, since competition is so central to capitalism, the capitalist needs to make sure that his/her business keeps a competitive advantage over its competitors. One way of doing that is investing in what Marx called dead labor, or *constant capital*. Constant capital is for example machinery. Machinery doesn't add value to product. By getting more and more constant capital, the capitalist has shifted the ratio of what Marx called: the organic composition of capital. If more and more is spent on constant capital and less (or the same) surplus value is extracted from workers (you add machinery but not people), the rate of profit for businesses will fall. To exemplify this I've made the formula underneath:

$$\frac{\frac{s}{v}}{\frac{c}{v}+1} = r$$

s/v is the rate of surplus value extracted over the variable capital. c/v is constant capital over variable capital. If the c in this equation grows, the rate of profit (r) will fall. This is something that is perpetuated throughout business-cycles in a capitalist society because of the driving

factor of capital accumulation. Marx did highlight some actions that might offset the tendency for the rate of profit to fall. A capital owner can either suppress wages, thereby making the worker create surplus value for 4 hours instead of 3 (example above). This would increase the s/v in the equation. Another possible action available to the capital owner is to use the machinery to increase the efficiency of the laborer, thereby making them add value to the commodities produced at a faster pace. A third option is to expand potential markets by getting cheaper labor or materials in other areas of the world (form of imperialism). This will not however, change the fact that there is a structural problem within capitalism that leads to repeated economic downturns. The options available to the capital owner might only postpone the inevitable as the constant drive for capital accumulation in a competitive market will create drops in profit for businesses, making it difficult to invest more into what Marx called the circuit of capital, thereby stagnating the economy and experiencing recessions.

Question 5:

The neo-classical tradition is concerned with analysis of units within the micro-level, that being: individuals, markets and firms. They view the self-interested rational consumer and the profit-maximizing firm as two driving components of the capitalist success story. This tradition also emphasizes the importance of a minimal government, and the need for the market to govern itself. By letting the forces of supply and demand work, close to, uninterrupted in a system where consumers are rational and firms are interested in profit, we achieve a well functioning economy.

Some criticism have been leveled at the neo-classical tradition for "adding up microeconomic elements to explain macroeconomic phenomena", but the neo-classical tradition has played a very central role throughout the history of economic thought and their deductive reasoning of microeconomic phenomena has proven effective.

Question 6:

Land reform is an essential first step towards economic growth and prosperity in a developing economy according to Studwell. In his historic analysis of the success story of the East-Asian Tigers, he highlighted a three-pronged strategy to ensure long-term effective economic development. In a developing economy (such as the East-Asian Tigers after the second world-war), there is an abundance of farmers. In this situation it is important to create maximum output, but also to employ as many farmers as possible. By doing land reform, in such a way that; land is taken (against compensation or force) from large landowners and redistributed to as many farmers as possible, such that the farmers get a small plot of land where they can realize as much output as possible (what Studwell called: a gardening approach to farming), you not only get employment numbers up (and therefore consumption up, as more people have disposable incomes) but also output up. It might have been more economically beneficial in the short-term to keep the status quo as the larger farms that existed before the reform might realize more profit efficiency than the gardening approach to farming, but this is a long-term strategy for development, and only the first step towards a better economic output. After a while more and more people will be moving to cities to seek higher paying jobs, as farming is limited by prices for goods (a tomato is a tomato, it won't make you rich), it is important for the government to focus on the second step which is manufacturing. The agricultural reforms have now created a well fed public and an economy that is working because of the possibility to consume more, now it is important to make manufacturing grow and be competitively viable. It is important for government to protect manufacturing against competitive losses in the beginning, before they impose export discipline, meaning that they force these manufacturing companies to compete against international competition. This is because it starts a learning process whereby the domestic manufacturers learn how to make their products better and more competitive on the international market. The last step, which is important for both the first and second step to be realized, is to keep a tight leash on financial institutions and ensure that they make investment opportunities available for the developing industries (agriculture and manufacturing). Through government oversight and partial control, a

developing nation has now created a viable economy that employs a large number of people and competes on the international market. This all started with extensive land reforms and the government can release its reins on these industries.

This is much of the reason why the Asian Tigers are so successful today, they ensured that they didn't get a competitive advantage in being poor and being a producer of low-quality economic activities (as Reinert would have put it), they started with a low-quality activity and through reform got themselves into the "right businesses".

Question 7:

Control regimes are a symptom of what Bates would have called short-term predation. The control regimes of the African States in the latter half of the 20th century is the exact opposite of the East-Asian success story. In much of these control regimes the leading elite secured control over the important industries within the nation, they put heavy taxes on agriculture and controlled profits from exports, among other things. They lined their own pockets and the pockets of their supporters instead of creating incentive withing the population to work for common economic goals. By lining the pockets of a close circle of supporters and putting loyal family members or friends in high positions of power, they effectively secured their own reign. By taxing agriculture hard, they made it impossible for the vast number of low-skilled people that could have worked in agriculture, to realize surplus income for more consumption, and by controlling exports of raw materials (which they had in abundance) they didn't help create viable manufacturing industries that could compete on the international market. So when the global economy faced a downturn in the early 90s various African states didn't have dependable industries to fall back on when their international exports struggled. The people started suffering worse than before and the control regime that had secured the positions of the leading elites as well as making them rich, now became an incentive for people to rise up and fight against the predation they were experiencing.

Control regimes can create economic instability which leads to political disorder, which is why it is not a viable way to govern in a developing economy, and why Bates viewed them as a huge problem and a reason for why the African states haven't realized their potential despite their abundance in internationally sought after raw materials.

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 1:**

Over the last few decades China has grown to be the second largest economy in the world, only trailing the US. China has come a long way from the famine inducing policies of Mao Zedong, and now stands as an example of good economic governing despite its communist tendencies. With energy security in mind, the Chinese are now starting to take the lead in the development of renewable energy. How did they get there? And more importantly, where do they go from here? I propose that Studwell's conclusion that developing countries will have to do away with the three-pronged strategy to give way for free market capitalism in order to grow further, past the initial boost of the developmental strategy, is partially wrong. The Chinese state still has a firm grip on its institutions and that is what I consider to be the reason why they are fast becoming the leading entrepreneur of renewable energy. Through this entrepreneurial function, I argue that China might induce Schumpeter's process of creative destruction. This answer will then use the Schumpetrian perspective on the driving force of capitalism.

I will divide this answer up in four parts: first i will clarify the three-pronged strategy and creative destruction, before I map out China's progress through the three-pronged strategy proposed by Studwell. Then I will use that as groundwork to explain why China might be inducing the process of creative destruction within the energy industry.

Clarifications:

I've mapped out the three-pronged strategy for efficient economic development in developing countries on the previous page, but i will reiterate here:

1. The first step in an economy where the majority of people are low-skilled farmers it is important to distribute farm land so that small plots of land are given out to individual farmers ("a gardening approach to farming"), this creates high employment and maximum output from each plot of land, as the farmer can devote his time and energy to this one plot. By doing this you not only create a well fed public, but also disposable incomes that can be used for consumption.
2. The second step is to protect and export-discipline manufacturing. As more and more people start moving to cities in search of better paying work, the manufacturing industry will grow. By initially protecting these businesses you ensure that they aren't out-competed straight away by foreign competition. After these businesses start growing and prove viable in the domestic market, you enforce export discipline, meaning you force them to export their products. This is so that these manufacturing businesses can compete, loose and learn from the international market, thereby strengthening their products and making them viable internationally. By initially protecting them, you make it possible for them to try and fail in the internationally market, instead of going bust right off the bat.
3. The third step is vital to both the first and second step, and that is to keep a short leash on the financial sector, making sure that their goals are the same long-term goals as yours, by incentivize them to give out loans and subsidies to the development of agriculture and manufacturing.

Creative destruction was proposed by Joseph Schumpeter, and is an institutional/evolutionary take on the driving force of capitalism. According to Schumpeter it is innovation that is the driving force of capitalism. In the competitive market, firms will always try to get a hand up on their competitors by innovating, thereby creating more efficient products or production. When that first bit of technology, that makes a product or process more efficient, starts taking over the market, there is a period of chaos where competitors either have to implement this new technology or fail and be forced out of the market. Eventually, businesses will grow so large and economically powerful that they will protect themselves against the process of creative destruction. This will stagnate further development, and as people become discontent the evolution from capitalism to socialism will take place. Schumpeter

didn't consider the role the state could have in inducing creative destruction, but the role of government, I argue, is vital to create the process of creative destruction in the cartel-like structure of the energy sector.

The Chinese success story:

China's rise to prominence is a different story than that of the other Asian Tigers. As much of the other Tigers started developing after the second world war with the aid of the US, the Chinese saw the rise of communism with Mao Zedong as its leader. The ideological war between the East and the West segmented different approaches to governing. The great leap forward, was a great leap into the largest humanitarian crisis in history, and the Soviet style planning had proved an ill fated one. In the latter half of the 20th century the Chinese strategy changed, and they started adopting several of the tried and true methods of their neighboring countries. Extensive land reforms was undertaken and the gardening approach to farming proved to be an effective remedy. China's hand was forced by the circumstances, trade with the ideologically opposed West was not an option and protectionism on manufacturing was nonnegotiable. Maybe the most important part of the three-pronged strategy was also affected by the circumstances. The Chinese communist system kept a tight grip on all economic activity and by default also the financial sector. Development focused banks started appearing and gave support to both agriculture and manufacturing. The effect of all this was, when tensions between the East and West dissipated after the fall of the Soviet Union, the Chinese state had laid the groundwork necessary for international competition. That doesn't mean it's been all smooth sailing, various sanctions have been leveled at China throughout the 21st century and the rivaling tensions with the US is building. But the facts remain the same, China has managed to lift itself out of what could be called low-quality economic activity and is now a manufacturing powerhouse, especially within information technology, and their exporting industries are thriving. But the tensions between the worlds two super-powers is still forcing China's hand, but maybe for the better.

Chinese development and creative destruction:

China, like any other country, is dependent on cheap, efficient energy. Today, that is still fossil fuels, which the West has an direct or indirect control over. As the Chinese-US rivalry starts reaching levels of the cold-war US-Soviet Union, the Chinese are in need of securing energy independence and separate its interdependencies to the West. The groundwork laid out during the last century is proven useful in this respect also. The Chinese development banks that are somewhat still kept on a tight leash by the government, is pouring money into energy development. No other country has invested more in development of renewable energy, and on the back of that initial development, the Chinese are now starting to act as an entrepreneur of renewable energy technology on a state level. This entrepreneurial function is what induces the process of creative destruction according to Schumpeter. In the world of ever larger corporations and conglomerates it is important for governments, steered by social goals, to take on the role as the leading entrepreneur, such as they have done previously (Reinert: as a last resort). As the world becomes more and more aware of the real world implications of climate change, they might eventually increase their demand for renewable energy technology, were China might be the leading actor. If this becomes the case, China might well have overtaken the US as the leading economic power in the world.

Conclusion:

Even though China lagged behind its neighbors, it has through effective reform and governmental control managed to lift itself out of poverty. Past choices has proven effective, not only to reach their current state, but also to keep growing and eventually overtake the US. China offers a different part of evolutionary economic development than that of the neo-classically dominated West. By foregoing control in favor of liberal-economic governing (as is Studwells argument) the state makes it harder for itself to effectively act as the catalyst for developmental change. Although the Chinese state has a different goal than that of its people, the heavy focus on renewable energy fulfills both social and state goals. Therefore, the further evolution of an effective economic system might entail a somewhat close grip on, especially,

financial institutions. It might have taken a communist state evolving into a more free-market economy to realize that in order to keep the process of creative destruction going there needs to be more government oversight of development. This might actually prove Schumpeter somewhat correct as socialist tendencies needs to be adopted by capitalist nations, but it is far more likely that a different path will be created where the balance of free-market and stronger state development leads to a system in which capitalist goals are more compatible with social goals.

Besvart.