

# Grading guide

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## Part 1

### Question 1

The candidate should explain the three social classes in Ricardo's view, and that landowners are a drain on the economy at the cost of the other classes. Specifically the candidate should explain and model how when the economy expands more land is put to use the productivity of that land declines (assumption of marginal productivity of land). While the capitalist of the new land earns less profit due to the fall in productivity, he still has to pay rent. While he pays less rent than for more valuable land, it nevertheless puts upward pressure on the value of land (and thus rents) in the market (assuming competition). Thus rents take an increasing share of the value created, at the cost of profits (which in the classical economic tradition is synonymous with economic growth). It is key that the candidate explains this reasoning, and not just what 'happens in the model'. Wages are assumed to be constant at subsistence level.

### Question 2

The candidate should draw a model of a supply shift, and **explain why** price and quantity demanded are affected the way they are. The candidate should also justify why the model assumes constant supply (marginal analysis). The candidate should also at least one example of things that could cause shifts in demand.

### Question 3

The candidate should explain comparative advantages relative to absolute advantages, provide calculations (more or less exact) of the respective opportunity costs and explain what that means. Using the opportunity costs the candidate should demonstrate how both parties can be better off by trading, giving the range of mutual beneficial trades. The candidate should conclude that Italy has an absolute advantage in both good, but a comparative advantage in wine (and Greece in olives). The candidate should show awareness of how the assumption of frictionless trade (no trade barriers or transportation costs) affect the conclusion.

### Question 4

The candidate should present Marx equation of rate of profits, and explain how when capitalists (in an effort to increase profits) increase the portion of constant capital in the organic composition of capital, it actually decreases the **rate** of profit. This makes industry ever more capital intensive as bigger and bigger investments are needed to make a profit. This does not mean that capitalists will stop investing. They will not because they lack any central authority, and any one capitalist disengaging will loose out. The ever larger investments do however increase the risk of failure and economic crises. They also put an increasing pressure on capitalist to increase the rate of exploitation as an alternative route to profit, however this leads to increased risk of underconsumption.

### Question 5

The candidate only needs to know that this is *individual* firms and consumers.

### Question 6

The candidate should show awareness that pre-industrial economies largely consists of farmers who typically do not own any land. The candidate should then explain how land reform makes the most of the cheap labor that is available in the economy, and how multiple individual farming enterprises creates conditions very similar to the assumptions of the neo-classical tradition (with farmers now incentivised to maximize their effort to obtain profits) and how ‘gardening’ allows maximizing labor input to increase yields in the lack of capital. The candidate should explain how the profits generated by farming creates a domestic market for easy-to-produce manufactured goods, thus setting the economy up for “the next step”.

### Question 7

Because no candidates got this question quite right, it will only count positively toward grading.

## Part 2

Regardless of which question the candidate chooses he/she is expected to produce a well **structured** text that above all relies on **theoretical argumentation** toward a conclusion or answer to the chosen question.