

# FACULTY OF ECONOMICS STUDY AIDS 2021

ECT1 Paper 5 British Economic History - EXAM
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The Faculty Board has agreed to release outline solutions to the 2021 examinations as a study aid for exam revision. They are abridged solutions, and not 'definitive', and should therefore not be considered as an exemplar for 'complete' answers.

Note that the Faculty will not respond to any queries regarding these solutions.

## **Evaluate the effects of fiscal policy during the 1920s and 1930s.**

### **1920s**

- Students should display an understanding of the build-up of government debt during the war and need a fiscal adjustment after the First World War. This resulted in significant fiscal adjustments from 1918 into the early 1920s. This entailed both tax increases and expenditure reductions. A discussion of tax increases during early 1920s in the context of the severity of the 1920-1 depression.
- Some understanding of the policy of balanced budgets in the context of the ideas about the inter-war fiscal policy framework and the use of fiscal policy to return to gold.
- And evaluation of the difficulties of Reducing public debt in an era of deflation
- A discussion of the size of the fiscal multiplier (the expenditure multiplier and the tax multiplier) and their implications for the policy of the 1920s.

### **1930s**

- For the 1930s, students need to be aware of balanced budgets as part of the policy framework. The positive expectation effects of achieving the balanced budget in 1931 should be contrasted to the negative Keynesian effects on expenditure.
- The concepts of Constant employment budget surplus, fiscal leverage, and the size of the fiscal multipliers estimated for the inter-war period. A distinction between the expenditure multiplier and the tax multiplier has been noted in the inter-war evidence.
- Students should display an understanding of estimates of the fiscal multiplier in the 1930s commenting on the expenditure multiplier and the tax multiplier
- Relating fiscal multipliers to rearmament expenditure from 1935. Noting the significant output and employment effects of rearmament.

**Did the set of policies introduced in 1931-32 constitute a consistent policy framework?**

- Policy consistency as a concept should be discussed as a theoretical tool that we can use in policy analysis. This may also consider the concept of policy regime change as a framework to think about policy consistency.
- Students should display an understanding of the set of policies introduced in 1931 and 1932. These included the devaluation, the balanced budget, expansive monetary policy from April 1932 the General tariff of February 1932.
- Evaluation of policy consistency between expansive monetary policy and contractionary fiscal policy would be interesting.
- Evaluation of the consistency between tariffs and devaluation would allow the student to evaluate the use of tariffs under systems of fixed, floating, and managed exchange rate systems with an evaluation of policy consistency.
- The concept of policy regime change provides an interesting overall framework to consider the theme of policy consistency. Relating policy regime change to expectation changes from depression to recovery would be interesting. This will give students an opportunity to discuss the idea of a consistent policy framework around the theme of price level targeting as announced by the Chancellor at the Ottawa conference in 1932.

## **Evaluate the evidence for unemployment hysteresis during the 1920s and the 1930s.**

### Hysteresis effects on Unemployment during the 1920s.

Students should discuss the persistence of unemployment in the 1920s and explain how hysteresis as a concept can explain the trends. Students should distinguish between permanent shocks to unemployment and hysteresis processes. Evaluate labour market channels of hysteresis (human capital, physical capital, and insider-outsider effects). There seems to be weak evidence for these channels in the case studies of the 1920s. As an alternative evaluate trade hysteresis effects in light of the overvaluation of sterling during 1919-2.

### Hysteresis effects on Unemployment during the 1930s.

Students should be aware of the paths of unemployment which display a mixture of cyclical paths and persistence in the 1930s. A discussion of the evidence on long-term unemployment as discussed in Crafts (1987) and Eichengreen and Hatton (1988) should guide the discussion. The observed persistence of unemployment is often related to the idea of a 'bifurcated' labour market which describes a situation where two separate labour market equilibria exist: in one there are high turnover rates; in the other there exists prolonged long term unemployment. Therefore, duration-dependency is often taken as an explanation for unemployment persistence during the 1930s. This idea needs to be evaluated using the evidence of re-employment probabilities. Students should be aware that the trends in the 1930s are consistent with hysteresis and sorting as explanations for long-term unemployment in the 1930s:

1. Labour Market Hysteresis and long-term unemployment
2. Labour Market "Sorting" as an alternative or complementary understanding of duration dependence