Prof. Dr. Karl-Heinz Paqué

Summer Term 2008

Examination
for the lecture
"Globalisation and World Economic Development"

Preliminary Remarks:

- ***Time:*** *2 hours.*
- ***Aids:*** *no aids are allowed, except a bilingual dictionary.*
- ***Language:*** *English. Answers in German are possible for students who are registered in German-speaking programmes of the University.*
- ***Structure:*** *3 parts (1,2,3). Each part is weighted equally. In each part, a maximum of 20 points can be reached. The total number of points is 60. Part 1 consists of ten binary choice questions. Parts 2 and 3 consist of one text question with various parts.*

Part 1

In this part, there are ten binary choice questions that can be answered with "yes" or "no". The questions contain statements about a selected content of the lecture that are either correct or incorrect. A statement is correct only if all parts of the statement are true. It is incorrect if at least one part of the statement is false. The relevant criterion for true- and falseness is what you have been taught in the lecture in terms of facts, empirical evidence and theoretical interpretation.

For any correct choice of answer, you score +2 (plus two), for any incorrect answer –1 (minus one), and for no choice at all 0 (zero) points. All points will be added up to yield the total score of Part 1. The maximum score is 20, the minimum 0 (zero). There can be no negative total score. If the sum of all points is negative, the total score is set equal to 0 (zero). The total score receives a weight of 1/3 (one third) for the grade of the examination (max. 20 points).

Question 1:

"The Roman empire was quite prosperous. Modern estimates show that it had roughly half the per capita income of England in the 19th century. Also, it was highly urbanized. Until the 18th century, no European city was larger than Rome had been at the time of Emperor Augustus."

Is this statement correct? Yes O No O

Question 2:

"In terms of economic growth, the Middle Ages were a much more dynamic period than the Roman empire. While per-capita income was still very low in the 10th century, it grew strongly in the three centuries thereafter. It was a time of fast urbanisation and an increasingly differentiated division of labour within cities and between cities and the countryside. In the early 14th century, on the eve of the Black Death, this development reached a first peak. At that time, the most densely populated and most prosperous areas in Europe were northern Italy, Holland and England."

Is this statement correct? **Yes** O **No** O

Question 3:

"In the 14the century, Venice was not only a centre of long-distance transit trade. It also became a major centre for the production of high-quality textiles notably from silk, which was imported via the eastern Mediterranean. Also, the manufacturing of glassware on the Venetian island of Murano as well as a large shipyard contributed to the high labour productivity and prosperity of the city. Beyond that, Venice became a cradle of merchant banking."

Is this statement correct? **Yes** O **No** O

Question 4:

"The Hanseatic League had four main offices (in German: "Kontore"). The four were in Bruges, London, Bergen and Novgorod. Between these, there was a lively trade going on. The pattern of trade looked like this: raw wool was imported from Russia via Novgorod to Bruges and distributed to the textile production centres in Flanders. On the other hand, furs were imported from Scandinavia via Bergen and sold in London in exchange for fish from the Channel and the North Atlantic. Also, the salt trade played a major role, with Lübeck and Bruges being transit ports for salt from the French Atlantic cost."

Is this statement correct? **Yes** O **No** O

Question 5:

"The Black Death had a fundamental effect on the labour market in the Middle Ages. It led to a drastic reduction of the labour supply. This had far-reaching consequences: the capital/labour-ratio and the land/labour-ratio rose, and so did the marginal labour productivity of the remaining labour force. Empirical studies show that this pushed up the real wage. In this sense, the Black Death had similar effects on the real wage level as emigration from overpopulated areas in the 19th century. E. g., Irish labour that remained in Ireland profited from mass emigration of other Irish workers to America."

Is this statement correct? **Yes** O **No** O

Question 6:

"Spain in the 16th century is a remarkable case of a country that became rich, but did not develop. It received massive inflows of gold and silver from overseas, but did not substantially enlarge its productive potential. Instead, Spain ran a persistent current account surplus that led to a deflation in the country and a massive inflation in the rest of Europe, thus speeding up the development notably of Holland and England."

Is this statement correct? **Yes** O **No** O

Question 7:

"Industrialization and urbanisation in the late 18th and in the 19th century are closely intertwined. Typically, cities with large industrial plants grew in the vicinity of large energy supplies and good water transport facilities. Examples are the Tyne-region in Britain and the Ruhr-valley in Germany. However, in the course of the 20th century, many of these industrial agglomerations came into a major crisis and shrank back to their pre-industrial population densities."

Is this statement correct? **Yes** O **No** O

Question 8:

"After the repeal of the corn laws in Britain in 1846, grain prices did not fall for quite a long time. From this fact, some traditional historians have concluded that the repeal of the Corn Laws had no effect on market conditions. This conclusion is flawed because, to evaluate the effect of a policy, one has to specify what would have happened without the policy (the so-called counterfactual). In computable general equilibrium analyses, this has been done for the Corn Laws. The result: grain prices would have been more than 20 % higher with corn laws than without them."

Is this statement correct? **Yes** O **No** O

Question 9:

"International capital mobility reached a peak in the late 19th century. Current account deficits and surpluses as a percentage of GDP were quite high compared to later times, as appropriate Feldstein/Horioka–tests show. The countries that received the net capital flows were typically very poor countries with very low real wages. Hence capital mobility contributed massively to the convergence of real wages that we do observe for the period between nations."

Is this statement correct? **Yes** O **No** O

Question 10:

"The 1950s and 1960s were a time of fast catching-up of Europe vis-à-vis the United States in terms of per-capita income. In quantitative terms, this was not due to the European Recovery Programme (ERP or Marshall-Plan) because this programme accounted for less than 3 % of total GNP of the countries that received aid in the crucial period 1947-53. However, the programme helped to clear the path for a liberalisation of inner-European trade and for a re-integration of Western Europe into the world economy. Thus it did have a great qualitative importance."

Is this statement correct? **Yes** O **No** O

Part 2:

In this part, there is one text question that is to be answered using the standard tools of economic reasoning.

Question (Part 2):

In the period 1930-32, the world economy went through the so-called Great Depression. It was the worst global business downturn so far. It originated in the United States, but then spread to Europe and overseas.

(a) Explain how the Great Depression came about in the United States. Distinguish explicitly between competing hypotheses. What role did deflation play?
(b) Explain how and why Germany was particularly hard-hit by the depression.
(c) In September 1931, Britain left the Gold Standard, and the British Pound devalued. Evaluate this step, both from Britain's national and from a global standpoint.
(d) In the course of the Great Depression, many countries went over to protectionism. Evaluate this shift of trade policy. Compare the macroeconomic effects of protectionism and the demise of the Gold Standard.

Part 3:

In this part, there is one text question that is to be answered using the standard tools of economic reasoning.

Question (Part 3):

In terms of exchange rate regimes, the time since the 1950s up to the present can be very roughly divided into the period of the Bretton Woods System (until 1973) and the period of flexible exchange rates (since 1973).

(a) Explain the fundamental principles of the Bretton Woods System.
(b) Explain why it broke down.
(c) Explain the effects of American macroeconomic policy in the early 1980s ("Reaganomics") on exchange rates, world capital flows and the debt crises of developing countries.
(d) Explain how currency boards and/or pegged exchange rates affected Latin American and Asian countries in their financial crises in the 1990s.