

**Examination
for the lecture
“Globalisation and World Economic Development”
(2899)**

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 each of one text question with various parts.
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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).

Note that only the answers you mark on the question sheet count!

Question 1:

“The ancient Greeks founded many colonies around the Mediterranean. Trade with their colonies made them specialize in manufacturing and in the horticulture of grapes, olives and wine; in return, they imported grain and raw materials. This allowed an efficient division of labour in the Mediterranean region.”

Is this statement correct?

Yes No

Question 2:

"Feudalism as it historically developed – and economically: manorialism – can be regarded as a rational economic answer to an environment of very low population density and an extreme lack of safety in a subsistence economy with very low productivity of labour and land. On largely self-sufficient manors, serf-peasants provided food and landlords security in return."

Is this statement correct?

Yes No

Question 3:

"The early Middle Ages, the heyday of feudalism, were a period of stagnation in terms of agricultural technology. As in the late Roman empire, there were no recognisable reactions and adjustments to labour scarcity. As a consequence, labour productivity in agriculture stagnated from the 8th to the 13th century."

Is this statement correct?

Yes No

Question 4:

"Spain in the 16th century received massive inflows of gold and silver from overseas. The country ran a persistent current account deficit. Other European countries profited from the high level of demand of Spain for the goods they produced. In particular, Holland and England developed their economies whereas Spain did not. For Europe as a whole, the massive inflow of gold and silver via Spain ushered in a period of price inflation."

Is this statement correct?

Yes No

Question 5:

"Holland's success in the 17th century as a growing trading nation with a strong manufacturing industry was much favoured by cheap energy costs, notably of coal, which was mined on the sandy shores of the Polder Sea. It was thus able to pursue a deliberate low-cost strategy in industrial production, which put the Italian cloth industry under massive competitive pressures in the increasingly international market for textiles."

Is this statement correct?

Yes No

Question 6:

"During the time of the Gold Standard that ended with World War I, the price level was not stable. In fact, it fluctuated widely: there were long periods of moderate deflation and long periods of moderate inflation. However, real interest rates stayed roughly constant: nominal interest rates adjusted to inflation so that real interest rates remained largely unaffected (the so-called Fisher-effect)."

Is this statement correct?

Yes

No

Question 7:

"Both the 'spending hypothesis' and the 'money hypothesis' cannot adequately explain the enormous extent and long duration of the Great Depression in the United States. To explain these, one needs to combine both hypotheses. If one does this, the Great Depression can be graphically described in a standard IS/LM-framework as a massive rightward-shift of the IS- and the LM-curve."

Is this statement correct?

Yes

No

Question 8:

"The devaluation race of the 1930s was an unambiguous disaster. It was carried out in a spirit of unilateral beggar-thy-neighbour-policy, and aggravated rather than attenuated the Great Depression. In addition, the empirical evidence shows that those countries that devalued their currencies early on did not recover faster from the depression than those who did not."

Is this statement correct?

Yes

No

Question 9:

"In the framework of the General Agreement on Tariffs and Trade (GATT), successive rounds of trade liberalisation took place in the 1950s and 1960s that reduced the world-wide average tariff level substantially. This was a clear break with the trade policy of the early 1930s, which – beginning with the American Smoot-Hawley Act – had led to a wave of protectionism, which is most likely to have contributed to a massive contraction of international trade in the Great Depression."

Is this statement correct?

Yes

No

Question 10:

"In the wake of the two oil price crises and the concomitant recessions, unemployment increased in almost all industrialised countries. With the recovery from the recessions, however, unemployment rates declined sharply in the United States, but stayed high in most European countries."

Is this statement correct?

Yes

No

Part 2:

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

Question:

In the years 1922 und 1923, there was a unique price inflation in Germany. It was followed by a currency reform.

- (a) Describe this "hyperinflation" and the subsequent currency reform. Why was the reform successful? (10 points)
 - (b) "It is absurd: in 1923, at the peak of monetary expansion, money became scarce." Discuss this statement. (5 points)
 - (c) After the currency reform, Germany massively imported capital from the United States. Explain why. What were the risks? Did they become relevant later? (5 points)
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Part 3:

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

Question:

The current economic crisis is the worst since the Great Depression. It began with a real estate price bubble and its final bursting.

- (a) Describe the course of events that led to the crisis. In doing so, focus on American monetary policy, world-wide current account imbalances and the expansion of the market for mortgage-backed securities. (10 points)
 - (b) Briefly describe how central banks and governments reacted to the crisis. Compare these reactions to those in the Great Depression. (5 points)
 - (c) Some economists think that shortcomings in supervision and regulation are to be blamed for the big bubble and its final bursting. What do they have in mind? What do you think: are they right? (5 points)
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