

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

Name:.....

Matr.Nr.:.....

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.
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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). 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 the per capita income of England in the 17th century.”

Is this statement correct?

Yes No **Question 2:**

“Feudalism – 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. From the 8th to the 13th century, this form of economic organization led to a technical progress, which was slow (by modern standards), but sustained.”

Is this statement correct?

Yes

No

Question 3:

“In the 14th 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 iron and steel on the Venetian island of Murano as well as a large shipyard contributed to the high labour productivity and prosperity of the city. Both profited from the rich coal reserves of the nearby Veneto region. Beyond that, Venice became a cradle of merchant banking.”

Is this statement correct?

Yes

No

Question 4:

“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 the long run, this supported labour-saving technical progress, thus contributed to the growth of knowledge and supported the further economic growth of the western world.”

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 wind power. With the country being flat and relatively open to the sea, a large number of wind mills could reliably deliver energy at low cost. 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:

“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. However, the countries that received the net capital flows were typically not the very poorest countries with the lowest real wages. Hence it is unlikely that capital mobility

contributed to the convergence of real wages that we do observe for the period between nations. In this respect, labour mobility was probably much more important.”

Is this statement correct?

Yes

No

Question 7:

“The German hyperinflation of 1922/3 ended abruptly. It did so in the course of a radical stabilization programme of the German government, which led to a massive decline of the real money supply at a constant nominal money supply. In addition, fiscal balance was restored by massive lay-offs of public employees.”

Is this statement correct?

Yes

No

Question 8:

“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. In particular, one needs to explain why not only aggregate spending but also the money supply contracted massively. If one does this, the Great Depression can be graphically described in a standard IS/LM-framework as a massive leftward-shift of the IS-curve and the LM-curve.”

Is this statement correct?

Yes

No

Question 9:

“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. This was largely due to the European Recovery Programme (ERP or Marshall-Plan) because this programme accounted for more than 10 % of total GNP of the countries that received aid in the crucial period 1947-53. In addition, 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.”

Is this statement correct?

Yes

No

Question 10:

“In the wake of German unification, unemployment in eastern Germany rose massively and stayed high ever since. More than two decades after the fall of the Wall and the Iron Curtain, there is still a big gap in labour productivity between the West and the East. This is true for Germany and for Europe as a whole. The East/West-productivity gap is 20-30 percent in Germany, and more than 50 percent in Europe.”

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 (Part 2):

In Europe, the 1960s were a time of extremely low unemployment. Thereafter, in the mid-1970s, unemployment rose sharply and remained a persistent phenomenon until today.

- (a) Explain why unemployment was low in the first place. Consider the working of the Bretton Woods system.
 - (b) Describe how the big change in the labour markets came about in the 1970s and 1980s.
 - (c) How did policy react in most countries in both cases?
 - (d) Explain why high unemployment became persistent in Europe, but not in the United States.
 - (e) What do you think of the most recent reaction of labour markets following the financial crisis?
 - (f) What do you expect for the future in view of demographic changes? Will we return to low unemployment as in the 1960s?
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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 (Part 3):

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

- (a) Briefly describe the course of events that led to the crisis.
- (b) Describe how central banks and governments reacted to the crisis. Compare these reactions to those in the Great Depression.
- (c) In the aftermath of the crisis, some Mediterranean countries – notably Greece – faced a massive worsening of capital market conditions to refinance their debt. Explain how this came about.
- (d) In early May, 2010, Greece was practically rescued from insolvency through the intervention of the Eurozone member countries. Explain how and why. What do you think about the rescue operations, both in the short and long run?
- (e) Some critics argue that, in view of the recent events, the Euro is doomed to fail eventually. What is your forecast? And why?
- (f) Oddly enough, Japan has a much higher debt-to-GDP ratio than Greece has. Why does Japan not fail like Greece? How do you see Japan's future?