TOPICS FOR ANSWERS

Part I

Economic Variables in Great Britain (1650 = 100)

	1650	1700	1750	1800
Real Agricultural Worker Productivity	**100**	**114**	**151**	**188**
Real Industrial Worker Productivity	**100**	**108**	**126**	**164**
Interest Rate (mode)	**6%**	**6%**	**4%**	**4%**
Real Wages	**100**	**114**	**172**	**162**

Source: Extrapolated from Broadberry et al., Table 9.09; Schmelzig. Appendix, Table 9.

Which theory about the begginings of the modern economic growth fits this data better?

- make sure that your arguments include the data in the Table.

Three theories explain the beginnings of MEG in Great Britain before 1800:
Industrious, Industrial or Institutional Revolution theories.
Data fit Industrious Rev theory well:

- *agricultural productivity starting to grow in 1650, well before any other key factor (institutions or radical industrial technology) materialised.*
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Data also fit Institutional Rev:

- *the fall of interest rates took place after 1700, i.e. after the foundation of the Bank of England*

But

- *this theory cannot explain earlier growth nor the fall in real wages*

Data fit Industrial Rev:

- *increase in industrial productivity after 1700*
- *decrease of the labour:capital price ratio.*
- *real wages going down after 1750 with productivity going up, showing that mechanical methods are replacing human labour*

But

- *Likewise, cannot explain earlier growth*

Part II

Question 1 - Compare nineteenth-century Globalization with the late twentieth-century Globalization, highlighting the key differences.
There are two main differences: a) late twentieth-century Globalization did not include international labour movements, whereas nineteenth-century Globalization allowed for; b) the existence of international multilateral institutions, on which the later Globalization relied, whereas the first Globalization depended on unilateral decisions of the countries.

Question 2 - What were the 'wheels of change' that precipitated modern economic growth in the model developed by Oded Galor? How did they work?
The wheels of change are 'population size' and 'population composition'. Larger populations simultaneously stimulate the supply of and demand for innovations, as well as the capacity for expand and retain them, and higher proportions of human capital and specialization likewise. Together, these two wheels activate (and are activated by) technological improvements over the centuries, until these reached a critical threshold that ushered in modern economic growth.

Question 3 - Why did the Oil Crisis demand changes in economic policy?
The oil crisis was a supply-side crisis that could not be solved by the policies followed in the Golden Age, which prioritised employment and export-led growth while ignoring mounting inflation and rising wages. After 1973, rapidly-rising oil prices created a dilemma for governments: either follow labour-friendly policies and aggravate inflation or fight inflation and harm workers. In the interest of long-term growth, governments and central banks eventually followed the second option by, respectively, making (neo)liberal reforms in the labour and capital markets and increasing interest rates.

Question 4 - Which international institutions contributed to the Golden Age of economic growth?
The Bretton Wood agreement created two institutions that smoothened international transactions and reassured countries that would be supported when facing the challenges of free trade: the dollar-standard and the IMF. Also, at world level, the signature of the GATT created a vast global 'low-tariff' zone, that would expand in the following decades. Within Europe, the EPU and the ECSC also took away the incentives for protectionism and bound countries to free-trade. Likewise, the Marshall Plan supplied Europe with capital and US dollars, as well as financed European institutions.

Part III

A good example of an "Enclave Economy" during the nineteenth-century Globalization is provided by Nigeria, a colonial territory specialized in cotton and palm oil.

Considering the theories developed by Kondratieff and Maddison, it is possible to state that each phase represents a mix of institutions and policies that were adapted to respond to a major upheaval in the world economic order, according to Maddison.

Chinese Institutions in the start of the Great Divergence were ill-suited to growth, given poor protection offered to individual rights, as shown in the high interest rates.

World War I had a profound economic impact as it destroyed trade links and, as such, contributed to a rise in post-war unemployment.

In the New Deal, Roosevelt did not adopt the right policies to stimulate private investment.

Only one of the following statements is INCORRECT. Which is it? “A multidivisional structure involves assigning each of the diverse elements involved in the production of cars (engine and parts manufacturers, chassis works, body companies, and assemblers) to a specific division.

According to Barry Eichengreen, post-1945 international institutions were deliberately designed to Bind countries to a strong commitment to free trade and avoid protectionism.

The Great Depression in the US ended when World War II prompted the government to mobilize idle labour and capital, leading to high investment and low unemployment levels.

Coordinated decentralization in the firms can be understood as Trusting middle managers with decentralized decisions with the top management retaining coordination.

The main factor explaining the rapid Chinese convergence in the last three decades is Foreign direct investment and capital imports from more advanced countries.