University of California - Davis
Department of Economics
Economic History

Date: July 2005
Time: 3 hours
Reading Time: 20 min

Please answer **FOUR** of the following six questions, including at least one from each of the three Parts.

Part A (answer at least one)

(Question 1.) The key puzzle of long run economic history is why the rate of efficiency advance was so slow in all societies before 1800.

(1.A) Explain why we know empirically that efficiency growth rates were extremely low before 1800.

(1.B) Is it plausible that the formal institutions of pre-industrial economies explain the low rate of efficiency advance? Explain.

(Question 2.) Douglass North has in the course of his long and distinguished career espoused two contradictory theories of the evolution of institutions and their role in economic life. What were the theories of the young North and the Old North. Using specific examples, explain which of these theories seems more plausible.

Part B (answer at least one)

(Question 3.) By early in the 19th century (perhaps much earlier) the economy and many key institutional and demographic characteristics found in sections of the United States (and Canada) were much different (and far more conducive to modern economic growth) from what existed in most of the rest of the Americas. Analyze the key differences and explain why they had emerged. (Without limiting your creativity, among other things you might want to consider the roles of geography, colonial policies, health, education, income distribution, political structures and political economy, etc.)

(Question 4.) According to the distinguished Professor X:

> "Until roughly the 1930s almost all technological advances in agriculture resulted from mechanization because of farmers' single minded quest to save labor--an increasingly scarce factor of production. In fact, because of the abundance of land farmers were really not much interested in saving land until well into the 20th century which explains the almost total lack of biological innovations. It was only after the 1930s that biological innovations started to become important. This is because the movement in relative factor prices reversed itself and because before this date biological innovations were just too complex for the primitive science of the day. The empirical evidence overwhelmingly supports the view that there were no biological technical advances because the yields per acre of wheat, cotton, and corn only began to increase significantly after the 1930s."

Professor X elaborated on many of these issues (you can pick your own elaborations). You dominated the Q and A session--please tell me what you said during your extended comments.

Part C (answer at least one)

(Question 5.) What has happened since 1970 to employment, labor productivity per hour, and GDP per capita in France (or, if you wish, the EU in general) relative to the United States? What roles did Franco-American (or EU-American) differences in economic policy play in these relative changes? What roles were played by differences in labor market policies, social (welfare-state) policies, product market regulations, or general macro-economic policies aimed at stabilizing aggregate demand? Explain.

(Question 6.) On May 31st, 2003, Ben Bernanke told the Japan Society of Monetary Economics what he thought the Bank of Japan (BOJ) should do to cure deflation. Bernanke argued that the BOJ should play by new rules during deflation:

> "The Bank of Japan should consider increasing still further its purchases of government debt, preferably in explicit conjunction with a program of tax cuts or other fiscal stimulus.
>
> "The Bank of Japan became fully independent only in 1998, and it has guarded its independence carefully, as is appropriate. Economically, however, it is important to recognize that the role of an independent central bank is different in inflationary and deflationary environments."

Bernanke cited economic history from the 1930s as evidence that this would work:

> "Finance Minister Korekiyo Takahashi brilliantly rescued Japan from the Great Depression through reflationary policies in the early 1930s, while President Franklin D. Roosevelt's reflationary monetary and banking policies did the same for the United States in 1933 and subsequent years. In both cases, the turnaround was amazingly rapid. In the United States, for example, prices fell at a 10.3 percent rate in 1932 but rose 0.8 percent in 1933 and more briskly thereafter. Moreover, during the year that followed Roosevelt's inauguration in March 1933, the U.S. stock market rallied by 77 percent."

Is Bernanke right? What should the BOJ have done since 1990? Specifically,

> **(6A)** Should the BOJ have been more reflationary since 1990? Could it have raised Japan's growth rate?
>
> **(6B)** Is he right in saying that FDR's [and the Fed's] recovery policies after March 1933 are an example the BOJ should follow today? What "monetary and banking policies" from the US in 1933-1940 would be relevant to Japan since 1990, and what lessons should Japan draw from them?