

AUBG, Fall 2013, ECO222a: Econ History
Practice questions for the final
(Coverage: comprehensive)

1. One of the reasons for the industrial revolution reviewed in the multiple equilibria theories is fertility: declining fertility allowed for a rapid growth of Y/L . What is the best argument against this theory?
 - A) there is no best argument against this theory since it is completely well-thought out
 - B) the data from England and Sweden does not entirely support the theory: fertility started declining long after the start of the IR and can hardly be thought of as its precursor
 - C) the data from England and Sweden does support the theory yet other theories are more powerful in explaining the reasons for the IR
 - D) the data from England supports the theory while the data from Sweden does not
 - E) none of the above

2. According to one of the theories explaining the occurrence of the industrial revolution in England and not in China or Japan, the major advantages of England in the end of the 17th century were:
 - A) lower population growth
 - B) higher literacy rates
 - C) lack of new land to expand agriculture with extensive techniques
 - D) coal which reduced the prices of inputs and colonies which boosted trade
 - E) all of the above

3. The role of higher social mobility in England than in other countries was stated as an additional factor explaining the occurrence of the industrial revolution in England. How does the increased social mobility work?
 - A) the rich have more kids than the poor and therefore it becomes easier for the poor to climb up the social ladder because they become a scarce resource
 - B) the poor have more kids than the rich and therefore after a while the poor gain enough political support to start a revolution
 - C) the rich have more kids than the poor which makes poor people gradually decline as a proportion of the entire population
 - D) the poor have more kids than the rich and since the poor kids have been competing for scarce resources with their siblings more than the rich kids, they become more competitive which gradually allows them to move up the social ladder
 - E) none of the above

4. Between 1910 and 1928, high school graduation rates increased from 8% to 27% of the child population. As a result of this, we can expect:
 - A) the inputs into the aggregate production function to remain unaffected
 - B) the inputs into the aggregate production function to change but the output to remain unaffected
 - C) the inputs into the aggregate production function to remain unaffected but the output to decline
 - D) the inputs into the aggregate production function to remain unaffected but the output to increase
 - E) both the inputs into and the output from the aggregate production function to increase

5. During the 1920s, the stock market tripled in value. Assume the US population held a lot of stocks at the time, and derived wealth from it. If there is any link between the wealth and consumption, consumer credit and growth, we would expect to see the following events unwinding:
 - A) As the stock market went up, consumers felt more inclined to demand riskier assets but banks did not extend credits to them. Since the stock market does not produce physical goods and services, it shifted resources from the real sector to the financial sector and as a result, growth suffered.

- B) As the stock market went up, consumers felt wealthier but banks did not believe what they saw, and did not extend credits to consumers. As consumption declined, so did GDP growth.
- C) As the stock market went up, consumers felt wealthier. Because of the lower collateral that can be demanded from consumers, banks did not extend credits to consumers. As consumption stagnated, so did GDP growth.
- D) As the stock market went up, consumers felt wealthier. Because of the higher collateral value held by consumers, banks extended more credits to consumers. As consumption soared, so did GDP growth.
- E) none of the above.

6. The "Government is not the solution to our problems; government is the problem" phrase was coined by:

- A) Arthur Laffer
- B) Jimmy Carter
- C) Ronald McDonald
- D) Margaret Thatcher
- E) Ronald Reagan

7. Austerity is one of the keywords of the new political landscape after 2010. However, in some countries suffering from chronic unemployment, persistently stagnant economies, and severe austerity, we see a dangerous trend: a rise of far-right political agents. This has analogs in history with tragic consequences. One of those analogs is:

- A) the disappearance of the Mayans
- B) the demise of the Ancient Egypt
- C) the rise of the Third Reich
- D) the collapse of the Virgin Island civilization
- E) the collapse of the Soviet Union

8. The Scandinavian model of the welfare state which won many admirers in the past has a few basic traits. Which are they?

- A) very limited subsidies for every public service
- B) large re-distribution from the rich to the poor
- C) very low inequality, comparable to the one in the socialist countries
- D) only A) and B)
- E) only B) and C)

9. The economic development literature derives some of the fundamental causes of growth as well as the widely accepted growth correlates. Despite the fact that the list of fundamental causes is by no means exhaustive, we can agree on a few of those factors as well. Those are:

- A) luck, geography and formal and informal institutions
- B) guns, gems and genes
- C) lock, stock and two smoking barrels
- D) sweat shops, child abuse and slaves
- E) communism, socialism, capitalism and democracy

10. Development theories of convergence postulate that poorer countries grow _____ than the richer countries because of the _____ returns to investment in those countries. However, the evidence in favor of _____ convergence is inconclusive and weak at best which discredits to some extent those convergence theories.

- A) slower; lower; absolute
- B) faster; higher; absolute
- C) slower; lower; conditional

- D) faster; higher; conditional
- E) slower; higher; conditional

11. There is conclusive evidence of _____ convergence. More specifically, _____ countries indeed grow faster than the _____ countries because of the _____ returns to investment in the former.

- A) absolute; poorer; richer; lower
- B) absolute; poorer; richer; higher
- C) absolute; richer; poorer; higher
- D) conditional; poorer; richer; higher
- E) conditional; richer; poorer; higher

12. In the past, Land was considered one of the major production factors. Today, it is not quite the case because:

- A) of the declining role of land in the production process.
- B) of the declining role of capital in the production process.
- C) of the increased role of land in the capital accumulation.
- D) of the declining role of land in human capital depreciation.
- E) of the increasing role of land in the production process.

13. The FED was created as a response to banking crises in the US. Back in the beginning of the 20th century, when the FED was created, it was believed that if the banking system had _____, it would experience _____ banking crises.

- A) a governor; fewer
- B) a lender of last resort; more
- C) a lender of last resort; fewer
- D) a Dodd-Frank act; fewer
- E) a way to do open market operations; more

14. The data on the business cycle and the nominal interest rates in the US demonstrates that during most recessions interest rates went _____. This is a result of _____ monetary policies which target _____ GDP growth.

- A) up; restrictive; lower
- B) down; restrictive; higher
- C) up; expansionary; higher
- D) down; expansionary; higher
- E) down; expansionary; lower

15. The European Central Bank was created in 1999 with one main target. Which goal is it?

- A) a positive growth of the labor force in the European Monetary Union (EMU)
- B) a negative growth of price levels in the EMU
- C) stabilize asset prices in the EMU
- D) a 5% growth of the price levels across the economies in the European Union
- E) a stable and predictable growth rate of prices in the EMU of just under 2%

16. Evidence on inflation targeting points to significant advantages of using the inflation rate as the main medium-term target of the central bank. The evidence also points to one major disadvantage. The advantage is that inflation targeting _____, while the disadvantage is that it _____.

- A) stabilizes inflation expectations; may drive the economy into a short-term recession
- B) reduces GDP growth; may drive inflation expectations well above the target
- C) stabilizes expectations on the interbank interest rate; increases GDP growth to unsustainable levels

D) makes communicating monetary policy targets very easy; the effects of the policy are seen immediately

E) none of the above

17. Evidence on price levels and money supply during the Civil War in the US points to the fact that:

A) there is no correlation between money supply and inflation in that period whatsoever

B) the introduction of electronic banking can benefit both consumers and the banks

C) there is a positive correlation between money supply and inflation but it is definitely not a characteristic of the period around and during the Civil War

D) there is a positive correlation between money supply and inflation and it is also present around and during the Civil War

E) there never was a Civil War in the US

18. Between 1870 and 1920, the US labor force was growing faster than population. One of the reasons was an increasing role of immigration in the US labor market. One of the consequences was:

A) higher unemployment rate

B) higher labor force participation rate

C) lower unemployment

D) a declining political pressure to ban free immigration

E) none of the above

19. Karl Marx was a 19th century philosopher and economist who was most active slightly after the middle of the 19th century. Marxist theories of revolutions of the labor class against the capitalist class had a sound historical base in the data. Specifically, if we look at data from the 1820s to the 1860s, we will note that even though _____, _____.

A) technology was quickly improving; human capital formation was not catching up as fast as technology

B) capital investment was declining; labor income was growing

C) labor hours were growing; labor productivity was not growing as fast as labor hours

D) human capital was growing; labor productivity was not growing as fast as human capital

E) labor productivity was growing; labor income was not growing as fast as productivity

20. If we look at data from labor union participation in the 19th century US and Europe, we will see that union participation was stronger in _____. One of the major reasons is that _____ during the 19th century was _____ in Europe than in the US.

A) Europe; labor income; lower

B) Europe; capital income; higher

C) US; labor income; lower

D) US; capital income; higher

E) Europe; human capital formation; faster

21. Supply-side policies from the late 1970s and early 1980s followed the two oil shocks of the 1970s. Those policies were designed to deal with _____.

A) positive; aggregate demand shocks

B) positive; aggregate supply shocks

C) negative; aggregate demand shocks

D) negative; aggregate supply shocks

E) negative; idiosyncratic (individual-level) supply shocks

An update after the midterm:

1. What is the difference between the two extreme types of early European settlements (extractive states and neo-Europes)?
 - A) settlers in the extractive states tried to balance the interests of citizens and elite more than those in neo-Europe states
 - B) settlers tried to develop more competition in the extractive states so those colonies are richer today than the neo-Europes
 - C) settlers tried to replicate European institutions emphasizing on private property in the neo-Europe states, while their main purpose in the extractive states was to transfer as much resources from the colony to the colonizer
 - D) there is no such thing as Neo-Europes; every state is extractive
 - E) all of the above

2. The _____ the procedures for setting up a business, the _____ to start and to do business, and the _____ the share of the informal sector in the economy.
 - A) cheaper; easier; higher
 - B) cheaper; easier; lower
 - C) more expensive; harder; lower
 - D) more expensive; easier; higher
 - E) more expensive; easier; easier

3. The essence of the Acemoglu-Johnson-Robinson Settler mortality paper (The Colonial Origins of Comparative Development) is:
 - A) where institutions come from but not the effect from economic institutions
 - B) the effect from economic institutions but not their origins
 - C) both the origin and the effect of economic institutions
 - D) neither the origin nor the effect of economic institutions
 - E) there is no such paper

4. In the Settler mortality paper by Acemoglu-Johnson-Robinson, the index of expropriation risk is _____ correlated with _____.
 - A) positively; modern economic institutions
 - B) negatively; modern economic institutions
 - C) positively; political systems
 - D) negatively; political systems
 - E) positively; GDP/capita

5. Which of the following is NOT a trait of the first ten years of economic transition in CEE?
 - A) the stock of physical capital shrank
 - B) output declined
 - C) income inequality worsened
 - D) labor increased
 - E) trade reoriented to the West

6. In a political economy context, who gained most from the early stages of reforms during the economic transition in Central and Eastern Europe?
 - A) state sector workers
 - B) new entrants
 - C) oligarchs and insiders
 - D) a and b
 - E) nobody

7. Evidence from all recessions points to the intuitive result that capital accumulation _____ ; at the same time employment _____.

- A) decreases; increases
- B) decreases; stays constant
- C) decreases; decreases
- D) increases; increases
- E) increases; decreases

8. Evidence on housing investment points to the observation that housing investment is a _____ indicator. Specifically housing investment _____ aggregate output; it also _____ aggregate output.

- A) leading; declines before; increases before
- B) lagging; increases before; declines after
- C) coincident; declines with; increases with
- D) leading; declines after; increases after
- E) lagging; declines after; increases after

9. Evidence from consumption in most recessions points to the fact that _____ consumption is better correlated with _____ than _____. Therefore, if policymakers rationally target growth, they should target the consumption of _____.

- A) non-durable goods; aggregate output; durable goods; non-durable goods
- B) durable goods; aggregate output; non-durable goods; non-durable goods
- C) non-durable goods; aggregate output; non-durable goods; durable goods
- D) durable goods; aggregate price level; non-durable goods; non-durable goods
- E) durable goods; aggregate output; non-durable goods; durable goods

10. What was the advantage of Britain leaving the Gold Standard in 1931?

- A) more generous social programs
- B) more government spending
- C) better export competitiveness
- D) weaker US dollar against the Pound
- E) none of the above

11. The fiscal policies at the onset of the Great Depression were _____ for solving the issue with the private capital accumulation. Specifically, the 1929-1930 budgets were running _____. Later budgets were running _____.

- A) adequate; deficits; surpluses
- B) inadequate; surpluses or were balanced; deficits
- C) adequate; surpluses or were balanced; deficits
- D) inadequate; surpluses or were balanced; surpluses
- E) inadequate; deficits; surpluses

12. A typical policy during the Great Depression to introduce an unfair competitive advantage to the domestic firms over their international competitors was:

- A) import taxes
- B) export subsidies
- C) export taxes
- D) import subsidies
- E) non-tariff barriers

13. One of the major drivers behind the rising prices of art in the last 30 years has been the _____ demand in emerging economies. In those economies, the _____ elasticity of demand is _____ than 1, which explains the empirical observation of rising prices.

- A) higher; price; higher
- B) lower; price; lower
- C) higher; income; higher
- D) lower; income; lower
- E) constant; inter-temporal; lower

14. During the 20th century, the returns on investment within the art market were higher for _____, and lower for _____ art.

- A) contemporary; modern and impressionist
- B) modern and impressionist; contemporary
- C) modern and impressionist; 19th century
- D) 19th century; contemporary
- E) none of the above