

ECONOMICS 113 — MIDTERM EXAMINATION #1

PART I. Paired Identification (24 points total; 18 minutes total)

Choose **two** of the following **three** pairs of items. Define or identify each term in the pair (6 points). Then, briefly discuss the connection between the two terms (6 points). Each answer is worth 12 points total. You should spend about 9 minutes on each question.

- (1) (a) Native American economic activity, circa 1400 and (b) Location of 18th century British colonial economic activity
- (2) (a) Sources of labor supply in Northern states versus in Southern states, 1800 - 1860 and (b) Extent of investment in agricultural implements in Northern states versus in Southern states, 1800 - 1860
- (3) (a) “Rational” economic behavior and (b) The “Slavery Debate” over the profitability of slave labor

Part II. Using Economic Models and Concepts to Explain Historical Events (36 points total; 27 minutes total) **Answer all three questions.**

- (1) (12 points) Use an economic model of supply and demand for labor and the concept of opportunity cost to explain why young women were used as factory labor in early industrial New England. Supplement your written explanation with a graph.
- (2) (12 points) Use the concept of moral hazard to explain why banks characterized by “insider lending” arose in early industrial New England.
- (3) (12 points) Use the regression results summarized in the table below to explain why urbanization is not a good explanation for variation in pauperism rates in 1823.

Determinants of Extent of Pauperism, 1823

	<u>250-towns w/o NYC</u>	
independent variables	coefficient	t-stat
constant	2.51	2.4
% Non-Agricultural L.F.	0.7	2.2
1820 population	0.03	1.05
population growth rate	0.2	0.28
% foreign born	-1.23	-0.81
% nonwhite	1.49	0.76
employment rate	0.03	0.14

Source: Hannon, Joan Underhill, “Poverty in the Antebellum Northeast,” *Journal of Economic History* 44 (December 1984): Table 3.

PART III. Table Identification (12 points total; 9 minutes total) **Answer both questions.**

- (1) What are the data in the table saying? (2 points) What is an implication of the pattern shown? (4 points)

Percentage of Cherokee Households Achieving Self-Sufficiency in Corn Production	
	<u>% of all households</u>
TN	63.7%
AL	59.1
NC	46.1
GA	46.4

Source: Wishart, Table 6.5

- (2) What are the data in the table saying? (2 points) What is an explanation for the pattern shown? (4 points)

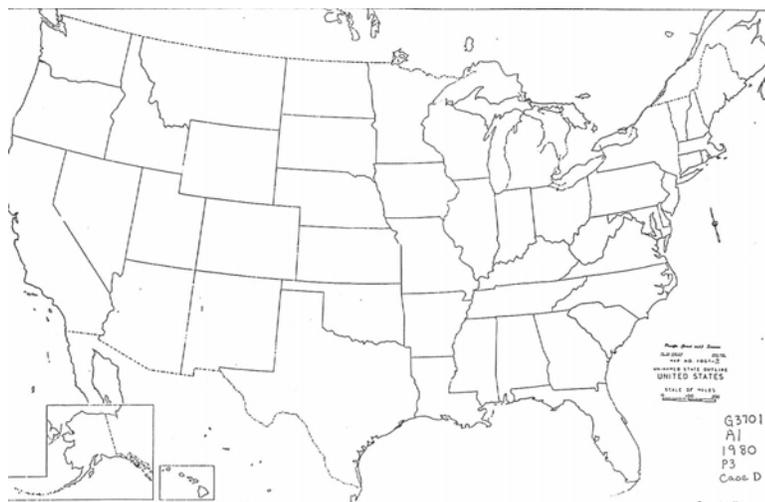
Skill Premium in Urban Massachusetts	
	$\frac{\text{daily wage of machinist}}{\text{daily wage of common labor}} \times 100$
1825	150
1831-40	156
1841-50	190
1851-60	220

Source: Walton & Rockoff, Table 11-6.

Part IV. Map Identification (8 points total; 6 minutes total)

Using the map below, sketch in each of the following. Label the area with (1), (2), etc. (2 points each)

- (1) Erie Canal
- (2) North West Territory
- (3) Mississippi River
- (4) Alluvial Region



PART V. Short Essay Question (20 points total; 15 minutes total)

Answer **one** of the following **two** questions. Base your answers on lecture, discussion section, **and** the assigned reading. *Complete answers will draw from all three sources.*

- (1) Growth models are based on the production function $\frac{Y}{P} = A \cdot F\left(\frac{K}{L}, \frac{T}{L}, \frac{L}{P}\right)$. The Solow growth model assumes “A” is exogenous. Endogenous growth models assume “A” is endogenous. “A” includes the development of infrastructure that enables growth to occur. Property rights and land-holding institutions are one component of economic infrastructure.
- (8 points) List and define 2 characteristics of property rights in the 18th century United States. For each characteristic, explain how that characteristic encouraged or discouraged economic growth.
 - (6 points) What are 2 characteristics of the Northwest Land Ordinances of 1785 and 1787? For each characteristic, explain how that characteristic encouraged or discouraged economic growth.
 - (6 points) Would you characterize the property rights and land-holding institutions you described above as “exogenous” or “endogenous” changes in “A”? Explain your answer.
- (2) Growth models are based on the production function $\frac{Y}{P} = A \cdot F\left(\frac{K}{L}, \frac{T}{L}, \frac{L}{P}\right)$. The Solow growth model assumes “A” is exogenous. Endogenous growth models assume “A” is endogenous. “A” includes the development of infrastructure that enables growth to occur. Transportation networks are one component of economic infrastructure.
- (6 points) List and describe any 2 improvements (other than canal construction) to transportation in the 18th or 19th centuries. For each improvement, briefly explain how it encouraged or discouraged economic growth.
 - (8 points) Where and when were canals constructed in the United States? Explain how canals encouraged economic growth. What was one negative consequence of canal construction? Using economic concepts, explain why this negative consequence occurred.
 - (6 points) Would you characterize the changes in the transportation network that you described above as “exogenous” or “endogenous” changes in “A”? Explain your answer.