Department of Economics	Fall 2002
University of California	Economics 113
Berkeley	Professor Olney

ECONOMICS 113 — MIDTERM EXAMINATION #2

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) Sherman Anti-Trust Act of 1890
(b) Extent of disappearance of firms through consolidation & merger, 1898-1903

(2) (a) Investment in residential housing in the 1920s, and
(b) Immigration Laws in the 1920s

(3) (a) Changes in labor productivity in agriculture in the late 1800s, and
(b) Changes in the farmers' terms of trade, 1870 - 1895

PART II. Table Identification (18 points total; 13 minutes total) **Answer all three questions.**

(1) What are the data in the table saying? (2 points) *Briefly*, why was land granted to railroads? (4 points)

Percent of Land Granted to Railroads

North Dakota	24
Minnesota	19
Nebraska	15
California	12
ALL U.S.	12

Source: Scheiber, Vatter, Faulkner, *American Economic History*

(2) What are the data in the graph saying? (3 points) What is an explanation for the pattern shown? (3 points)

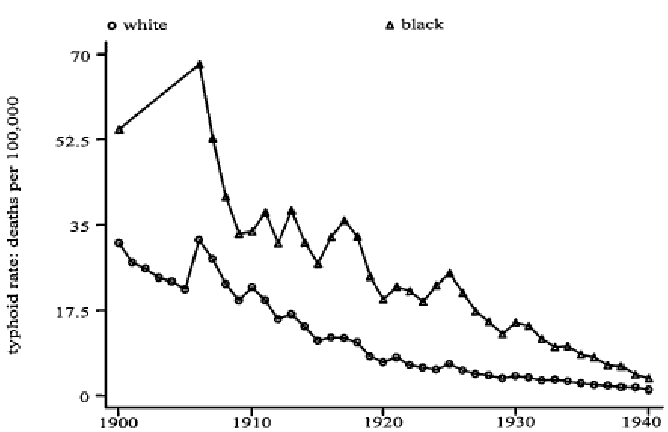

FIGURE 1
BLACK AND WHITE TYPHOID RATES IN THE UNITED STATES, 1900–1940

o - white typhoid rate, deaths per 100,000 persons; ▵ - black typhoid rate, deaths per 100,000 persons
Source: United States, *Vital Statistics*, pp. 275–85.

(3) What are the figures saying? (4 points) What is the implication of the patterns shown? (2 points)

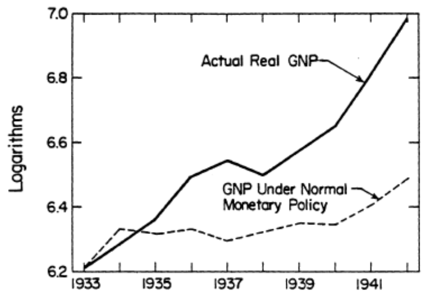

FIGURE 5

ACTUAL OUTPUT AND OUTPUT UNDER NORMAL MONETARY POLICY, 1933–1942

Note: The dashed line shows the path of real GNP under the assumption that the money growth rate was held to its normal pre–Depression level throughout the mid- and late 1930s; the solid line shows the path of actual real GNP.
Sources: The calculation of output under normal monetary policy is described in the text. The source for real GNP is the same as in Figure 1.

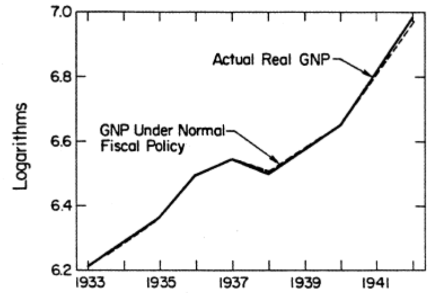

FIGURE 3

ACTUAL OUTPUT AND OUTPUT UNDER NORMAL FISCAL POLICY, 1933–1942

Note: The dashed line shows the path of the log-value of real GNP under the assumption that fiscal policy was at its normal level throughout the mid- and late 1930s; the solid line shows the path of actual real GNP.
Sources: The calculation of output under normal fiscal policy is described in the text. The source for real GNP is the same as in Figure 1.

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

(1) (12 points) Use the concepts of "entrepreneurial" versus "hierarchical" systems of labor management to explain the pattern of earnings for 1890 Michigan given in the table below.

Predicted Difference in Earnings by Age
Native-Born Ln(Y) - Foreign-Born Ln(Y)

Age of Worker	Grand Rapids & Detroit	Small Cities
20	.2497	.2058
30	.3081	-.0155
40	.3339	-.1136
50	.3272	-.0885

Source: Hannon, "City Size and Ethnic Discrimination," Table 3, p. 835.

(2) (12 points) Using concepts from the Heckscher-Ohlin and Solow models, and the table below, explain why incomes in the South Atlantic (SA) region and in the West South Central (WSC) region were below the national average in 1900.

Explaining differences in regional income, 1900

region	actual % difference between region & U.S. Y/L	Impact of . . . ag/nonag mix	Impact of . . . wages
SA	-52.6	-21.2	-53.5
WSC	-35.5	-29.3	-14.5

Source: Kim, "Economic Integration and Convergence," Table 1.

(3) (12 points) Drawing on the regression results below, explain the role of opportunity costs- for teenagers in determining differences in high school graduation rates in the early 20th century.

Determinants of High School Graduation Rates, 1910
(standard errors in parentheses)

log per capita wealth	0.236 (0.09)
% population ≥65 yrs old	2.13 (0.26)
% labor force in manufacturing	-0.067 (0.034)
% population Catholic	-0.0913 (0.031)
South (0/1 dummy variable)	-0.0449 (0.01)
New England (0/1 dummy variable)	0.0444 (0.01)
Constant	-0.136 (0.07)

Source: Goldin & Katz, "Human Capital & Social Capital," Table 1.

PART IV. Short Essay Question (22 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) Consumption spending was one of the many factors that combined to create the Great Depression of the 1930s. Events of the 1920s and before impacted the economy in the 1930s.

a) (5 points) Aggressive marketing of consumer goods in the U.S. dates from the late 1800s. What are two factors that led to a perceived need to market goods to consumers? Describe (with some detail) any one method by which goods were marketed.

b) (8 points) Using in-store merchant credit to buy consumer goods was not unusual in the late 1800s. Use of installment credit grew after 1900 and became common during the 1920s. What types of products were purchased with merchant credit? What types of products were purchased with installment credit? Drawing on the article by Martha Olney and using the results at the right, explain whether and why Black families faced racial discrimination in credit markets.

Predicted Likelihood of Using Credit

	White means & White coefficients	Black means & Black coefficients	Black means & White coefficients
Installment	25.2	77.4	79.9
Merchant	16.6	15.8	30.1

Source: Olney, "When Your Word Is Not Enough," page 423-24.

c) (7 points) Consumption spending dropped in the 1930s. Drawing on the argument offered by Frederic Mishkin **or** by Christina Romer **or** by Martha Olney, explain why consumption spending fell in the early 1930s, contributing to the severity of the Great Depression.

d) (2 points) What is one reform or other change since 1933 that accounts for the subsequent stability of consumption spending?

(2) Banking and finance was one of the many factors that combined to create the Great Depression of the 1930s. Events of the 1920s and before impacted the economy in the 1930s.

a) (5 points) With the National Bank Acts of the 1860s, the U.S. had two kinds of banks: national and state. What did it mean to be a "national bank"? What did it mean to be a "state bank"? What strategy did the National Bank Acts use to decrease the number of state banks? By 1900, there were again more state banks than national banks. What was one advantage to being a state bank rather than a national bank?

b) (8 points) Banks – especially state banks – began failing in the 1920s. Drawing on the article by David Wheelock and using the econometric results at the right, explain whether and why deposit insurance led to increased failures. What is one other reason that banks began to fail in the 1920s?

c) (7 points) Bank failures accelerated in the 1930s. Drawing on the argument offered by Milton Friedman and Anna Schwartz **or** by Ben Bernanke **or** by Barry Eichengreen, explain how bank failures contributed to the severity of the Great Depression.

d) (2 points) What is one reform or other change since 1933 that accounts for the subsequent decline in bank failures?

Determinants of Bank Failure
(standard errors in parentheses)

	All Banks
constant	-0.15 (0.11)
%Δ value per acre of farmland & buildings (ΔVALUE)	-0.35** (0.18)
% Δ total farm acreage (ΔLAND)	-0.12 (0.29)
% of state banks with deposit insurance (RATIO)	0.13** (0.07)
% Δ county's population, 1920-1930 (ΔPOP)	-0.23** (0.13)
# banks per person (BANKPOP)	-0.22 (0.61)
% of total banks that were national banks (NATIONAL)	0.36** (0.18)

Source: Wheelock, "Regulation and Bank Failures," Tables 1 and 2, Equations 1.1, 2.1, 1.2, and 2.2, respectively.