ECONOMICS 115: THE WORLD ECONOMY IN THE 20TH CENTURY

PAST PROBLEM SETS

1998—Fall (First Set)

Economics 115 — Professor Barry Eichengreen
The World Economy in the 20th Century — Department of Economics
September 15, 1998 — University of California, Berkeley

First Problem Set

1. Identify each of the following concepts in a few words and explain its relevance to the modern world economy. (10 points each)

   A. Path dependence
   B. Aggregate production function
   C. Schumpeterian growth
   D. Infant industry protection
   E. Price specie-flow mechanism

2. Answer each of the following two essay questions in 250 words or less. (25 points each)

A. Economists argue that there is a powerful tendency for rates of economic growth and levels of income per capita to converge across countries. Some have gone further and estimated that there is a strong tendency for convergence to proceed at 2 per cent a year. Why do economic historians doubt this "iron law of convergence?"

B. The final decades of the 19th century and the final decades of the 20th are regularly referred to as "the two eras of globalization." The parallels between the two periods are extensive, to be sure, but there are also important differences between these two eras in the *extent, nature, and effects* of international economic transactions. Describe and account for these differences.

1998—Fall (Second Set)

Economics 115
The World Economy in the 20th Century
October 1998

Professor Barry Eichengreen
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Second Problem Set

1. Identify each of the following concepts in a few words and explain its relevance to the modern world economy. (10 points each)

A. National Industrial Recovery Act
B. Co-Determination
C. Deliberative Councils
D. MITI (Ministry of Trade and Industry)
E. Export promotion

2. Answer each of the following two essay questions in 250 words or less. (25 points each)

A. The Bretton Woods System of pegged but adjustable exchange rates had much in common with the gold standard of the interwar years. Under both systems, governments pegged the exchange rate. Under both systems, they held international reserves in the form of convertible foreign exchange (dollar deposits in New York, for example). But while the interwar gold standard was unstable, deflationary and — ultimately — disastrous, the Bretton Woods System functioned remarkably well. What accounts for the very different performance of the two systems?

B. Scholars of Asian economic development dispute the role of industrial policy (also known as "industrial targeting") a factor in the rapid economic growth of he Japanese and East Asian economies after World War II. Describe the alternative points of view. Which interpretation is most strongly supported by the evidence?

1999—Fall

Economics 115
The 20th Century World Economy
September 1999

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First Problem Set

1. Identify each of the following concepts in a few words and explain its relevance to the modern world economy (ten points each).

   A. Modern economic growth
   B. Technology transfer
   C. Foreign direct investment
   D. German reparations
   E. Hyperinflation

2. Answer both of following essay questions in 500 words or less (25 points each).

A. According to many observers of today's world economy, the globalization we are currently experiencing is nothing more than "deja vu all over again." In their view, we have seen it all before, specifically in the late 19th century, when national markets were every bit as integrated internationally as today. Do you agree or disagree? Be sure to distinguish different dimensions of international integration (the integration of labor markets, capital markets, product markets, etc.). If you conclude that there are important differences between the two periods, be sure to both describe them and account for them. If you conclude in favor of similarities between the two periods, again be sure to provide an explanation the extent of those similarities.

B. In recent years, a growing number of developing countries have moved from pegged to flexible exchange rates, and many of those continuing to cling to pegged rates have suffered devastating crises. Clearly, one of the most difficult challenges facing policy makers today is to hold exchange rates stable in an environment characterized by high international capital mobility. Yet exchange rates were successfully stabilized, by a wide variety of countries for substantial periods of time, under the pre-1913 gold standard, and this despite the fact that this earlier period was also characterized by high international capital mobility. What explains the difference?

2001

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20th Century World Economy
Professor Barry Eichengreen

Problem Set

This problem set comes in two parts. Read the instructions carefully, and print out your answers on a separate sheet (or sheets) of paper. Be sure to indicate there the question number.

Part I

Answer all five of the following short-identification questions. (8 points each.) Identify each concept and briefly explain its relevance to the 20th century world economy.

1. Corporatism
2. European Recovery Program
3. Tanaka Plan
4. Fundamental disequilibrium
5. Industrial policy

Part II

Answer the following two essay questions (30 points each).

1. The Marshall Plan was the first large-scale foreign aid program in the history of the United States. How does it compare in size, structure, and motivation to the financial assistance extended by the United States to developing countries in the 1980s and 1990s? The Marshall Plan and its conditionality are said to have been more successful in achieving U.S. policy goals than subsequent American aid programs. They are also thought to have been more effective than the financial assistance and conditionality provided by the International Monetary Fund and World Bank to developing countries. Is this an accurate characterization of their results? What accounts for the differences in outcome in these respective cases?

2. The government's industrial policies are said to have played an important role in the acceleration of growth that occurred in Japan in the 1950s and elsewhere in East Asia in the 1960s and subsequently. What were these industrial policies? Under what conditions can such policies have a positive impact on growth? What is the evidence that these policies in fact had a positive effect on growth?

2004—Fall

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Economics 115
20th Century World Economy
Fall 2004

Problem Set

Note that this problem set is due at the beginning of class on ****.

Part 1. Answer each of the following (5 points each).

Identify the concept and explain (in a paragraph) its relevance to the modern world economy.

1. Debt cycle
2. Catch up and convergence
3. Intra-industry trade
4. Transfer problem
5. Real bills doctrine
6. Underwriting bank

Part 2. Answer 2 of the following 3 questions (35 points each).

Respond to the question with a short essay (not to exceed three typed 12-pitch pages).

1. Although simple summary measures (trade/GDP ratios, overseas lending/GDP ratios) suggest that the world economy was as globalized a century ago as it is now, Richard Baldwin and Philippe Martin argue that there are important senses in which globalization has gone further today. On what do they base this argument? At what variables and factors do they look when reaching this conclusion? Baldwin and Martin also argue that the effects of globalization on the distribution of incomes between more and less developed (equivalently, "more and less industrialized") economies was different in the late 19th century and today. Describe those differences and explain where they came from.

2. Recently, several prominent economists (for example, Ken Rogoff, former chief economist at the IMF) have suggested that foreign borrowing by emerging markets is counterproductive. Developing countries, in Rogoff's view, would be better off if they didn't borrow abroad, and international investors would be wiser not to lend to them. In making this argument he refers to the history of international capital flows in the 19th century and the interwar years. Is the historical record, as described by Fishlow ("Lessons from the Past") and in class, consistent with this conclusion?

3. Modern economists are convinced that pegged exchange rates and international capital mobility are incompatible with one another. Consistent with their presumption, in recent decades volatile capital flows have repeatedly overwhelmed the efforts of governments and central banks to peg their currencies on foreign exchange markets. Was the gold standard era different? Is it accurate to argue that exchange rate pegs were more durable and easily maintained in this first age of globalization? If so, what accounts for the difference? What are the implications for today?

2004—Spring

Economics 115
The 20th Century World Economy
Spring 2004

Professor Barry Eichengreen
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Problem Set

1. Identify each of the following concepts and explain its relevance to the modern world economy (ten points each).

A. Foreign direct investment
B. Financial integration
C. German reparations
D. Consumer durables revolution
E. Underconsumption thesis

2. Answer two of the following three essay questions in 500 words or less (25 points each). [Do not answer all three – no extra credit will be given to anyone who happens to do so!]

A. Lant Prichett in his article and Richard Baldwin and Philippe Martin in theirs both argue that the 19th century was a period of economic divergence – of growing income differentials between rich and poor countries. Is their evidence convincing? (What evidence do they cite?) What explanations do they provide for this pattern? In particular, are their respective explanations compatible with one another's or mutually inconsistent?

B. International capital flows were essentially free and unregulated in the decades leading up to World War I and in the decade immediately succeeding it. Yet economic historians argue that these flows had very different effects on the growth and fluctuation of the world economy – and of particular countries – in these two periods. Describe how international capital flows differed in the two periods. Here you may want to discuss differences in their volume, composition, direction and stability. Explain why these differences developed. Describe the implications of these developments for individual countries and the world economy.

C. The Federal Reserve and its policies are widely blamed for the Great Depression that developed in the United States starting in 1929. Explain the role of the Fed's action – and inaction – in this deep and extended recession. Be sure to distinguish the different stages of the Depression, as identified by historians, and to distinguish the role of the Fed in each. Describe the various explanations that have been offered for the Fed's policy stance. Which of these explanations do you find most convincing?