

Econ final exam review essay sample

[Economics](#), [Trade](#)



1. (5 pts) What is the Heckscher-Ohlin Theory of Comparative Advantage?

This is a theory developed by two Swedish economists to explain how countries develop comparative advantage in certain areas rather than others.

The model works as follows:

1) Assume every country, for the most part, has access to the same technology. 2) Still, factors of production are difficult to move across national boundaries. 3) It follows from (2) that factors of production are relatively bound by geography and national borders, and that not every country can obtain the proportions needed to maximize production. 4) Because the amount of productive resources differs between each country, it follows that countries will have comparative advantages in products that are intensive in factors that they have an abundance of.

(5 pts) Apply this model to explain trade between Great Britain and the United States in mid-nineteenth century.

Applying the model to U. S.-Great Britain trade:

1) Great Britain had a relative abundance of labor and scarcity of land. 2) The U. S. had an abundance of land and scarcity of labor. 3) Great Britain should develop a comparative advantage in sectors that were labor intensive and not very land-using such as factory production, cotton, and ironworking. 4) The U. S. should develop a comparative advantage in goods that require lots of land but little labor, such as wheat and corn. 5) Great Britain and the U. S. did develop comparative advantage in their expected areas, and the theory is supported by historical data.

2. (2 pts) What were the Corn Laws?

The Corn Laws were laws that created high tariffs on foreign grains

(3 pts) Explain how and why they were finally repealed.

These laws were repealed for several reasons. For one, the arguments of David Ricardo showed the economic benefits of free trade. Another was the fact that industrialization in Britain had much to gain by repealing these laws. As such, they, particularly represented by the actions Richard Cobden, took measures to influence the government to repeal them. Robert Peel started anti-Corn Law groups that were effective in turning more of the public to be in favor of repealing the Corn Laws. Peel was elected Prime Minister and he took measures to reorganize the British fiscal system, particularly imposing an income tax to make up for lost revenue on certain tariffs—he did not repeal the Corn Laws however. The Corn Laws were ultimately repealed because the Irish Potato Famine caused the price of potatoes to skyrocket, depriving people of a cheap source of food.

Since people needed a cheap source of food, Britain repealed the Corn Laws, making corn cheaper to buy. This was the most important part of the treaty. It said that if one party of the treaty negotiated removal of trade barriers with another party, then it followed that the other country in the treaty had negotiated trade barriers of the same goods with the new country as well. So, if France had a treaty with Britain, and France afterwards negotiated with Germany to have both remove trade barriers, then Great Britain would also have its trade barriers removed with Germany on those goods it did so with

France. This is significant for integrating the European economy and opening up free trade.

(3 pts) List the major provisions of the Cobden-Chevalier Treaty (Anglo-French Treaty).

1) The British were required to remove all trade prohibitions and import tariffs on all goods except brandy and wine, which they were allowed to keep a small tariff on for revenue purposes. 2) The French were required to remove all trade prohibitions and reduce or get rid of all tariffs on importation of British goods. This decreased to a 15% ad valorem tax.

(2 pts) What is the “most-favored nation” clause?

It said that if one party of the treaty negotiated removal of trade barriers with another party, then it followed that the other country in the treaty had negotiated trade barriers of the same goods with the new country as well. So, if France had a treaty with Britain, and France afterwards negotiated with Germany to have both remove trade barriers, then Great Britain would also have its trade barriers removed with Germany on those goods it did so with France. This is significant for integrating the European economy and opening up free trade. 3. (2 pts) What was the Zollverein?

The Zollverein was the customs union established by Germany. It effectively abolished all tariffs and tolls internal to the German market, resulting in the coming together of the German State into a “common market,” one economic unit more or less. It also created an external tariff common to all of Germany.

(2 pts) List 2 other similar arrangements in the Free-Trade Era of Europe.

Switzerland created its own version of this in 1850. The Austro-Hungarian Empire took similar measures to unify its economy by abolishing the customs frontier between its two halves.

(2 pts) Who were the Junkers?

The Junkers were a group of landholders in East-Prussia whose profits from grain production was significantly hurt due to free trade policies that encouraged the importation of lots of grain from Russia and the U. S. This foreign grain lowered grain prices, hurting Junkers. Thus they advocated for the re-imposing of trade tariffs to protect their losses.

(2 pts) How and why did they successfully lobby for protectionist tariffs?

Their lobbying was successful because the Chancellor of Germany, Otto von Bismarck, was himself a Junker. Moreover, a depression had occurred in Europe, which many attributed to free trade policies. Thus both factors led to the resurrection of protectionist policies.

(2 pts) Who agitated the passage of the Meline tariff of 1892 and why?

The Meline Tariff Act of 1892 was agitated by farmers and industrialists and placed protectionist tariffs on French agricultural products and retained industrial protection for French industrialists. This was done due to the political enfranchisement of peasants, the majority of whom were farmers hurt by free trade in agriculture. Thus, they elected politicians who were sympathetic to their needs.

4. (6 pts) Describe important developments in communications and transportation during the Transition Period.

Three main technological changes with significant economic impact:

1) Railroads- these provided a fast, dependable way to travel by land in all weather. These corrected markets and created new markets wherever they were built. Essentially, they stimulated the spread of goods, capital, and labor to almost all areas of economy across land. 2) Steamboats- these significantly increase the flow of trade over bodies of water—across Atlantic and up and down major rivers. Before steamboats, travel across the Atlantic took several weeks, while it only took steamboats one week. Also, it allowed for more goods to be transported at a time. It also made upstream travel possible, whereas before it was a very costly, long, and labor-intensive enterprise. Thus they increased flow of inter-continental trade. 3)

Telegraphs- this allowed information to travel over long distances over a matter of moments. Before telegraphs, it would take days, even weeks to convey information. Telegraphs made it possible to send info faster than humans could travel. This played an important role in connecting markets both domestic and especially international. International communication required wires to go underwater.

(4 pts) Talk about how the backward linkages and forward linkages from the railroads increased growth.

Each of these inventions forged backward and forward linkages between markets. Backward linkages refer to the effects these inventions had

on supplying industries with resources both material and financial. Forward linkages refer to the effects on industries that consume output. The railroad and steamboat improved these linkages by shortening travel time and transport cost of supplies, capital, and labor between markets. An example of the economic effects of railroads was the development of Denver as a major center of commerce. The telegraph also improved linkages by allowing information to travel instantaneously across markets. Some economists argue that this is just as important as railroads.

5. Discuss how the following examples of government interventions promoted economic development during Transition period, 1830-1870:

(4 pts) Specialized Banks

Investment Banks: King Willem I of Belgium authorized a joint stock bank, which was an investment bank. The king endowed it 20 M florins of state property as well as a considerable portion of his own private fortune. After the revolution and Belgian independence in 1830, the bank stimulated an investment boom.

(3 pts) Customs Unions

The Zollervein was created. Switzerland created a customs union in 1850. The Austro-Hungarian Empire abolished the customs frontier between its two halves in 1850.

(3 pts) Russian Reforms

Caused by the Crimean War, reforms included:

1. Emancipation of serfs
2. Government encouraged railway construction program on the basis of imported capital and technology
3. Reorganization of the banking system
4. Political Reforms: self-administration for districts and municipalities

6. (6 pts) Discuss the increase in steel production during the Second Industrial Revolution. Specifically, what technological improvements led to greater mass production?

Steel contains less carbon than cast iron but more carbon than wrought iron. So it is less brittle than cast iron but harder and more durable than wrought iron. Henry Bessemer patented the Bessemer converter for creating steel directly from molten iron, eliminating the puddling process and yielding a superior product. The basic process was created in 1878: the convertor or open hearth furnace was now coated with limestone to neutralize the phosphorous in the iron ore. This dramatically increased production.

(2 pts) Quantify this increase.

In 1865 less than . 5 million tons of steel were produced By 1914 50 million tons of steel were produced

(2 pts) List 2 forward linkages from the steel industry.

Railroad rails, ships, and building materials for skyscrapers

7. (2 pts) In what two aspects was the 2nd Industrial Revolution different than the 1st Industrial Revolution?

(3 pts) List 3 inventions of the 2nd Industrial Revolution.

(3 pts) What was the American System of Manufacturing?

(2 pts) List 2 industries in which this system was utilized by the Second Industrial Revolution.

8. (6 pts) Discuss how Great Britain's macroeconomic growth lagged that of other countries since the 2nd Industrial Revolution. Which countries had higher growth rates and due to innovations in which industries?

(4 pts) Compare the growth of British per capita income to that of other nations.