

Economics 3202
Test Three Solutions

Canadian Economic History to 1914
March 19th, 2015

This test consists of SIX questions. Answer ALL questions. You have 60 minutes to complete this test. Write your student number on the front page of the answer booklet. Please write in non-erasable ink.

For each question answer whether the statement is true, false or uncertain. In each case provide a detailed explanation for your answer. Answers that are not accompanied by an explanation automatically receive a mark of zero. Each question is worth the same number of marks.

1. The increase in the population of Upper Canada from 25,000 in 1794 to 80,000 in 1814 was largely due to the increased opportunities associated with the increased demand for North American wheat from the UK. *FALSE - unlikely this was important as (i) commercial farming was peripheral for most, no transport outlet for grain and most milling by hand, Corn laws. Settlement more likely supported by transfers from GB govt (loyalist claims etc), military expenditures (market for local produce)*
2. The Rideau canal gave American and Canadian farmers in the Great Lakes area a viable alternative to the Erie canal for shipping wheat to an East coast port. *FALSE - The minimum depth of 1.4m meant it was too shallow for big boats. However, smaller boats were unlikely to go on the stormy Great Lakes. As a result trans-shipment was still necessary.*
3. Superior management practices and a larger scale of operations allowed the Hudson Bay Company to take over the North West Company when the two companies merged in 1821. *FALSE - pre-merger the HBC struggled due to highly centralized structure. Large part of NWC partnerships were owned by wintering partners meaning decision makers had the knowledge, experience and incentive for company to do well. Also by 1780s HBC about £30,000 of business in fur trade while NWC and XYC had about £165,000 - 245,000. HBC won out due to greater capital reserves than the NWC which was caught in a liquidity crisis at the time of the merger.*
4. The decline of the Buffalo herds in what is now Western Canada in the 1840s owes as much to economic forces as to diseases that arrived with European animals. *TRUE. Partly supply side, impact of horse and gun, horse gave hunter speed and mobility to bypass undesirable bull and kill cow. Partly demand side -*

Increased Native Peoples and Métis populations meant more mouths to feed. These populations also had increased demand for European goods and with the decline of the fur trade looked to Buffalo as a source of trade-able goods.

5. The Reciprocity Treaty of 1854 had little effect on Canada's international trade. *FALSE - Trade volumes increase sharply (96% 1854-55) immediately after treaty. Need to rule out other possible explanations. If Canadian RT items became cheaper for unrelated reasons then EX to RoW should have increased similarly - initially declined, then return to 1854 levels in 1856. Could have been an increase in US demand unrelated to RT but EX of non-RT items declined slightly (3.4%).*
6. Government incentive schemes led to a high debt-equity ratio in the financing of Canadian railways in the mid nineteenth century. *TRUE - equity involves buying a share in the firm, if the project is not profitable then dividends and future price falls implying losses to shareholders. Bond investment is risky if there is uncertainty over whether the borrower will be able to repay principle and interest. However, if the govt guarantees the principle and interest then debt financing becomes more attractive to firms and the reduction risk allows the to pay a lower rate.*