

Midterm Study Guideline

Part 1.

- definition
- examples from readings
- implications

a. Extensive economic growth versus intensive economic growth.

Definition:

- extensive economic growth: expansion in the size of the aggregate economy. Taking more resources into resources.... Putting more workers
- intensive economic growth: increased output (GDP) per capita. Same resources that you have you make it more productive

Example:

- extensive: increase in labor or capital. (inputs in the factors of production)
- intensive: more products (output)

Implication:

- overall these factors influence the growth of the whole economy.

b. Economic development

Definition:

- one measure is in relation to the changing structure of the economy
- the improvements of population in the quality of life: well-beings.
- sustainable economic development.

Examples:

- improvement in education and healthcare

Implications:

- it grows the economy as a whole.

c. Historical materialism

Definition:

- Marx theory of society's economic organization (how society organized in the economy) determines its social institutions (Cause of social change is not within the psychological aspect, but regards to the mode of production in the economy structure)
- H.M is a theory of the process of historical change in human societies. The forces that drive change are rooted in material existence rather than being driven by ideas.
- change in the economic base(technology, methods of production) lead to the change in the superstructure of society (philosophy, social norms, politics, art, science).

Example:

- Change in an economic system
- “idea how like proletarians have to overthrow the bourgeoisie?”
- French revolution the struggle between the elite and working population OR struggle between bourgeoisie and proletariat

Implications :

-which type of social institutions or methods in achieving the change that best fits the society.

d. Mode of production**Definition:**

-how a society organizes itself economically. Organization happens in two parts 1) tools, machines, factors and resources along with human labor power. 2) the relation between the people related to economic production. Like who owns the factors and the workers.

-material life that conditions the social, political and intellectual life process In general

Examples:

-a system of economy. Like how an economy delivers basic necessities to people and the general process by how things are produced

Implications:

-how basic necessities of life are delivered or impacted

e. Superstructure**Definition:**

-everything not directly to do with factors of production.

-things that support economic structure and productivity

Examples:

-Media, religion, family, politics and education.

Implications :

-how mode of production is influenced???

- how different class structures are organized.

-how can the bourgeoisie strengthen their influences.

f. Economic base**Definition:**

-the relation of structure to the superstructure.

Examples:

-factors of production: capital, labor, land, machines.

-relations of production: proletariat and those bourgeois.

Implication:

-determines society's relationships and ideas to comprise its superstructure

g. Sustainable economic development

Definition:

-Economic development that attempts to meet the needs of humans in a way which sustains resources for the future generation.

Examples: creating a surplus for future resources. Not depleting resources for future generations to clean up.

Implications:

-ensuring future generations have enough resources to live and to sustain a healthy economy.

h. Steady state

Definition:

-where the economy is only growing sufficiently to keep up with a growing population & wearing out of the existing capital stock.

-relation of production output to the amount of K invested. I.e level of capital to invest or capital per capita

Example:

-when investment = depreciation

Implications:

-when the savings from per capita income that is just sufficient to cover depreciation and population growth

-zero economic growth.

i. Exogenous technological change:

Definition:

-Not chosen from the graph, chosen by outside the model. Not related to the choice of labor or capital

-technical progress that happens suddenly from nature not from the inputs from man-made things

Example:

-To insure more technological innovation and outside force other capital & labor is needed to bring technical change. Something naturally

-rains more or better way which improves agriculture

Implications:

-Technological growth is the main opponent of the economic growth, it shows that without technological growth the economy would only stay in Steady State (good enough to support only growth in population)

j. Solow residual

Definition:

-A measure of productivity growth based on rising output with constant capital (K) & (L)
-residual of regression.

Example:

-all aspects that increase income other than labor and capital could include technology

Implications:

-how technological improvement impacts growth
-Or to find out how technology impacted growth when subtracting L & K

k. Cobb-Douglas production function

- Production function that determines the different factors such as technology, capital and labour on how much they contribute to the total output

-The Cobb-Douglas function can also give us the contribution of technical progress (determined by subtracting the contribution of the other factors from output growth)

Example: The influence of technical change can be inferred from the growth of capital and labour

- $Y = AK^\alpha L^\beta$ (Alpha and beta represents the shares of capital and labour in production)

Implications: As you invest in technological change, the growth of outputs can be determined

l. Structural change

Definition:

-economic condition that occurs when an industry or market changes how it functions or operates. Economy as a whole

Example:

-industrial revolution

Implication:

-in general based on the definition, most likely increases productivity.

m. Institutions

Definition:

-Broadly speaking, can be thought of as the formal and informal rules and norms that determine the way in which human beings engage in economic, political and social activity. And also called “rules of the game”.

Examples:

-economic, social, political institutions. Official and non-official.

Implications:

-institutions are important because it provide rules of the game that sets up the proper organization of the society.

-Good institutions contribute to economic growth.

n. Rent-seeking

Definition:

-rich elites lobbying government officials in order to gain profit or benefits and manipulates the economy to seek interest at the expense of the society.

Example:

-corruption, neoclassical versus keynesian theories of rent-seeking.

Implications:

-rent-seeking harms society as a whole.

o. De jure vs de facto economic institutions

Definition:

De jure: Formally recognized economic structures of power

De facto: Economic structures of power that are followed in practice

Example: there may be excellent laws aimed at transparency and accountability in banking, business transactions, etc... (de jure or of the law) but they may not followed or enforced in practice (de facto)

Implications: corruption or other forms of rent seeking may occur when de facto economic institutions are followed over de jure economic institutions

Part 2:

1. Neolithic Revolution (The New Stone Age – started around 10,200 BC)

- During Neolithic period from the huntings and gatherings to development of agriculture and settlement.
 - i. First development of farming appeared in the Epipalaeolithic Near East

- ii. The settlement of communities provide humans to observe the plants and animals to learn how they grow over time à Domestication of plants and animals
 - iii. Benefits: The domestication of plants support larger sedentary communities, accumulation of goods and tools, and creating new specialization in form of labour. This creates a stable cycle in the economic growth, providing labour work and development to a larger community and governmental organization.
1. Food surpluses, goes to the non-agriculture groups (social elite), creating distinction and inequality within social classes (agriculture and non-agriculture)
 2. Lead to permanent settlement of human population
 3. Creating new technologies invention (agriculture technology: domestication, and knowledge of certain plants and animals
- Game Theory Applied to the Evolution of Cooperation
 - i. Don't envy the success of others, meaning: Do not try to outdo or overcome the other party in each encounter
 - ii. Don't be the first to defect: meaning offer the possibility of cooperation initially, rather than menace
 - iii. Reciprocate both defection and cooperation, meaning, respond in kind to the actions of others
 - iv. Don't be too clever, meaning Keep to a consistent strategy rather than trying to bewilder others by random changes of tactics.
 - Anthropologists, discover, by measuring the growth of height in these humans in Neolithic Period, could ultimately document the standards of living and growth in their agriculture development.

2. European Discovery of the New World (Page 100)

- As the population increases in Europe this lead to maritime exploration (direct commerce between Europe and Asia and the conquest of the New World)
 - i. This discovery of the outside territories, provide Europe with increasing in resources, and development in European economy
 - ii. The root cause of the decline in real wages was not a monetary problem; rather it was a result of the interrelation between demographic behaviour and agricultural productivity
 - iii. Lead to colonialism à Slavery and low paid labour à Creating inequality in social classes

3. The Logistic Pattern of Growth in Human History (Page 16)

- a. Organization of supplies for a large group of people
 - i. Two phases: one of accelerating growth followed by one of deceleration

- ii. Mathematically, at its limit the curve asymptotically approaches a horizontal line that is parallel to the asymptote of origin
- b. The S-curve also describe many social phenomena, especially the growth of human population
 - i. Explaining the positive correlation between population growth and economical growth, in the sense that both total and per capita output increased
 - ii. Proved by the fact that European colonialism has provided Europe with more territory to grow population à significant development in terms of economy
- c. Four logistics (first during ninth or tenth century but terminated by the Great Plague of 1348, middle of fifteen century, peaks in late sixteenth century, third: again in the eighteenth century, but interrupted by the world wars; fourth logistic: after World War II

4. Urbanization and commerce in Medieval Europe (Page 119)

- Urban population grew rapidly as a result of migration
- Seville and London tripled between 1500-1600 whereas Naples grew to 250,000. Paris to 250,000
- Towns functioned as primary commercial and administrative rather than industrial centers
- Commerce was the most dynamic between 15th and 18th century
- Dutch commerce was the Baltic trade which consisted of grain and timber
- The dutch accounted for 60% of all ships leaving the Baltic
- Change of powerhouses

Part 3:

1. Comparisons

- All of them came up with major inventions in agriculture & irrigation. EX: Mesopotamia & indus valley planted new crops,
- Many innovations and inventions. EX : Roman & Greek engineers creating Steam engines,
- All of them experienced a rise in their populations as their economies, quality of lives & innovations expanded. EX: Mesopotamia in developing Agriculture increased the population, Greek population growing as the expansion in maritime trade & exploration grew.
- Agriculture was a major aspect in the growth of their populations. EX: Indus Valley, Egypt & mesopotamia

- All developed extensive trading networks for which used to trade locally and regionally. Trading was very significant in their economies as many of the civilization engaged in it. EX: protection of sea routes for extensive trading networks expanded greek's economy,
- Many of the civilization were willing to try out new crops. In the indus valley migrating population acquired new skills to raise crops of rice and millet.
- some of the civilizations were based on regions that were bordered to rivers. Such as Egypt to the Nile river, Mesopotamia to the tigris & euphrates. This helped with sustaining agriculture.
- Merchants played a major role in many of the civilization in trading. EX: Greek Merchants trading with different civilizations like egypt, Chinese importing food supplies & exporting pottery & silk,
- Slave labour played a major role in the economic growth of Greece and italy.

Contrast

- What distinguished the west from the rest was the construction of the first city which is Uruk
- Greek cities established special quarters to house their own merchants
- A sophisticated system of water and sewage system was set up in the indus valley which each household had a running water system.
- Agriculture and domesticated animals first originated in the fertile crescent
- in Egypt eventually sustained a number of individual city-states
- In mesopotamia some elites financed the construction of irrigation systems & citywalls through their spoils. All of this encouraged a growing population and lead to rises in standard of living.
- Greek city states were thriving especially after establishing new forms of governments. This is important for development because it encourages the rise of political institutions.
- Coined money first developed in Greece.
- Athenian Empire in Greece was the world's first maritime empire
- Rome adopted some political institutions like when it incorporated Greek cities into the latin league is adopted legal protection under the roman law in defense of their property rights and enforcement of their contract.
- Pottery found in remaining cities of Italy indicated increasing per capita wealth with increase in population

2. What explains it is based on many factors and policies taken by European countries during medieval times.

The 3 prerequisites for European expansion where

- **Development of a commercial system**

-Which allowed entrepreneurs to expand their business and take on profit opportunities abroad from home.

-Expansion of banking & credit which helped finance many projects, inventions & even maritime exploration. Also this system facilitated trade and merchants sold on credit

-Development of new business institutions & new methods of accounting.

- **Technological change in transportation**

-Developed technological changes in navigation & shipbuilding which helped with European maritime exploration and guaranteed that long voyages were safe

-Increased the success of a journey

Technical change shifts A in the model. Output increased. This shifts production function up. In steady state you will have a higher income per capita.

Tech growth not only increasing growth but at a higher rate

- **Gov't involvement in colonial ventures**

-The risky nature and high cost of opportunities in distant locations reduced the expected profits of business ventures.

- **Trade & maritime Exploration:**

-The series of innovations & improvements in technology & commercial system changes the way merchants engaged in trade which truly brought tremendous results

-Trade & trading routes were intensive & was significant in the Mediterranean between Italy, Spain, North Africa & the Middle East which Europeans relied on and mainly traded with local and regional markets

-Trade in medieval times was based mainly on local and regional markets

-Relates to Blaut's theory of diffusionism because many Europeans brought European culture, products, techniques to the colonies. EX: Some European features that were brought into America were; firearms, alcohol & European diseases.... As a result of transforming the culture it resulted in a great increase in the volume & variety of goods traded.

- **population grows**

-population increased dramatically this was due to the growth of cities and from the settling of advanced agriculture

-Most of the increase in population distributed itself in cities which increased the population in urban cities

-The productivity of labor, increased several fold as a result of a trio of a interrelated innovations. EX: spinning wheel replacing the distaff.

-As populations increases the model predicts that income would increase at the extensive model. Output increases. Labor in proportionate to the population & if it increases with the same production function which increases output which again the functions captures and relates.

Other factors that lead to the expansion of the European Economy are

-Investments in capital lead to technical progresses

- slight regressions in technical competence like in building & architecture

-innovations occurring in steadily increasing numbers

-the model would predict that given the increase of investment and capital during medieval Europe this would increase the steady state because without technological progress in the solow model then the steady state is growing but at constant rate.

When technology grows it increase then the rate of K growth or income increase

-Total factor productivity grew which increased the returns from labor, land & capital

-The productivity of labor, increased several fold as a result of a trio of a interrelated innovations. EX: spinning wheel replacing the distaff.

-The lowered cost of production was a sufficient reason for their diffusion, but it also reduced the tedium of labor

-Europeans invented a host of technological traits which gave them superiority over non-europeans

-based on Eurocentrism beliefs European colonialism initiated the development of Europe and since then the wealth obtained from non-Europe had been necessary & very important for the continued development of Europe & its elite.

-Diffusion of civilizing ideas from Europe to non-Europe was morally justified

- The cultural changes that Medieval Europe had was lead by diffusionism which boosted inventions and a improved processes that were originated in other communities

3.

- Institutions can be referred to multiple factors such as social traditions, political structures, property rights
- Four kinds of institutions:
 - Economic institutions:
 - § Determine the extent to which agents are able to engage in market activities and the way they might participate
 - § In particular rules about the ownership of property
 - § Promote property à Efficient institutions
 - Political institutions:
 - § Determine the extent where politics are able to promote productivity and producing just governmental control
 - Social institutions: Regulate social relationship
 - § Determine groups and community stability
 - § Encompass both economic and political institutions
 - Local institutions: generally, those rules that relate to the enforcement of contracts
- Implications:
 - Efficiency is not maximized if people are not able to move to seek employment
 - Owners of the properties must be free from arbitrary expropriation
 - Property rights in crucial
 - May promote less of inequality in wealth
- Institutions are not only the fundamental causes à Geography
- **Implications:**
 - **Enforcement of property rights for a broad cross section of society, so that a variety of individuals have incentives to invest and take part in economic life**
 - **Constraints on the actions of the elites, politicians, and other powerful groups, so that these people cannot expropriate the incomes and investments of others or create a highly uneven playing field.**

Some degree of equal opportunity for broad segments of the society, so that individuals can make investments, especially in human capital and participate in productive economic activities.

4. -Property rights are significant for in institutions role in Economic growth such as the Enforcement of property right BUT this conflicts with Marx's communist theory of "abolition of private property" this property of the ruling bourgeois who have profited through the expensive of the labor of the proletariats

-also what conflicts with marx theory with institutions is the idea that Proletariat will seek the “overthrow of the bourgeois supremacy” but with the institutional perspective it doesn't call for that. In the contrast one of the key characteristic of good institutions call for some ! equal opportunity for broad segments of society

- A theory of Marx that could conform with institutions role in economic growth is his idea of centralisation of credit in the hands of the, by means of a national bank this alines with the idea of economic institutions purpose.

-one way to confirm is the instionalist talk about institutions and this relates to marx superstructre theory but eventually Marx calls for the elimination of of class structures and this doesn't alien with institutional framework. The superstructre reinforces. Institutions are part of the superstructre

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