SECOND MIDTERM – VERSION #1

A total of 100 points are possible.

Last Name: _____________________________ First Name: __________________________

Your Student ID Number: __ __ __ - __ __ - __ __ __ __

Part A: Multiple Choice Questions
(14 questions, each of which is worth 5 points)

Instructions: Answer these multiple choice questions on your Scantron. Write on the Scantron your name (last name first), student ID number, and exam version number in the “name,” “subject,” “test no.” boxes respectively. For example,

<table>
<thead>
<tr>
<th>NAME</th>
<th>McComb, Madeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUBJECT</td>
<td>530-66-6271</td>
</tr>
<tr>
<td>DATE</td>
<td>HOUR</td>
</tr>
</tbody>
</table>

**Warning**

If you first fill in an answer and then erase it to fill in a different one, and the first answer is not fully erased, the Scantron reader may detect two answers and not accept either one. Do not fill in an answer till you are sure this is the one you want to give, or you may not receive credit for the question.
1. “Engel’s Law” implies which of the following:

A. Workers in pre-industrial Europe got low wages because they lacked unions.
B. In a Malthusian economy most people live in the countryside.
C. The share of the population living in cities is an indicator of real incomes.
D. As income increases food expenditure declines.
E. Food expenditure increases proportionately with income.

2. Which of the following was a discovery of the high middle ages in Europe.

A. Legal system.
B. The number 0.
C. The spinning wheel.
D. Sailing ships.
E. Calculus.

3. Interest rates in medieval Europe circa 1300 were about

A. 2.5%
B. 5%
C. 7.5%
D. 10%
E. 12.5%

4. At a time of increased uncertainty in an economy from internal political troubles or external threats which of the following will happen to land prices and the return from owning land?

A. Prices will fall, but the return from ownership will rise.
B. Prices will rise, and the return from ownership will rise.
C. Prices will fall, and the return from ownership will fall also.
D. Prices will rise, but the return from ownership will fall.
E. Land prices will be the same, but the return from ownership will rise.

5. In Classical times in Europe what legal methods were used to give an economic return to innovators?

A. Patent system
B. None
C. Government prizes
D. Copyright protections
E. Land grants
6. In a Malthusian economy where the birth rate was at the biological maximum (as revealed by Hutterite communities) what roughly would be life expectancy at birth?
   A. 10 years
   B. 20 years
   C. 30 years
   D. 40 years
   E. 50 years

7. Tahiti in the 1760s was a Malthusian economy with early and unrestrained sex, and no apparent birth control. Yet living standards were so high and diseases apparently so limited that the European sailors reported it as a paradise. The most likely explanation for the seeming contradiction is:
   A. The sailor’s reports were exaggerated.
   B. There was a high death rate from internal warfare.
   C. The high death rates from drowning in sea voyages by canoe.
   D. The widespread practice of infanticide.
   E. The Malthusian model did not apply in the southern hemisphere.

8. In 1349 the arrival of the Black Death caused death rates in Europe to increase for the next 300 years. The effect of this in the **long run** was:
   A. Wages went up, births per 1000 stayed the same, and deaths per 1000 increased.
   B. Wages went up, births and deaths per 1000 both increased.
   C. Wages went up, births and deaths per 1000 stayed the same.
   D. Wages, and births and deaths per 1000 all stayed the same.
   E. Wages fell, and births and deaths per 1000 all stayed the same.

9. Suppose that in Egypt in 200 the rulers improved sanitation in towns by public health measures, and so reduced infant mortality. What will be the long run effect on life expectancy of this change?
   A. Increases.
   B. Stays the same
   C. Decreases
   D. Increases if wages increase.
   E. Increases if wages decrease.

10. A key assumption of the Malthusian model is that death rates were lower when real incomes were higher. Real incomes were at least twice as high in Europe in 1400 than in 1300. Compared to 1300 death rates per thousand in 1400 were:
    A. Lower
    B. The same
    C. Higher
    D. Could be higher or lower.
11. Suppose that the share of capital in the cost of inputs in an industry is 25%, the share of labor 50%, and the share of land 25%. The table below shows the growth rate of prices, capital rental costs, wages and land rents for the industry. In which case is productivity growth fastest?

<table>
<thead>
<tr>
<th>Output Prices</th>
<th>Capital rental costs</th>
<th>Wages</th>
<th>Land rents</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. -2%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>B. -2%</td>
<td>8%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>C. -2%</td>
<td>8%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>D. 2%</td>
<td>-4%</td>
<td>-4%</td>
<td>-4%</td>
</tr>
<tr>
<td>E. 2%</td>
<td>-8%</td>
<td>-4%</td>
<td>-4%</td>
</tr>
</tbody>
</table>

12. The table below gives potential figures for the growth rates of prices, capital rentals, wages and land rents for Italy from 1500 to 1800. Assuming that the share of capital is 25% in input costs, the share of labor 50%, and the share of land 25%, which set of figures can be rejected as implausible based on the implied productivity growth?

<table>
<thead>
<tr>
<th>Output Prices</th>
<th>Capital rental costs</th>
<th>Wages</th>
<th>Land rents</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. 1%</td>
<td>0%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>B. 1%</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>C. 1%</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>D. 2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>E. 2%</td>
<td>0%</td>
<td>2%</td>
<td>4%</td>
</tr>
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</table>

13. Serfdom was still widespread in Western Europe in 1300. But it provided little disincentive to work and investment by serfs because

A. The serfs ignored the demands of the owners for work.
B. The owners threatened violence if the serfs did not contribute the maximum effort.
C. The obligations of serfs had by then become defined as a fixed amount of work, often paid in money rather than as direct labor, and other fixed payments.
D. The serfs were loyal to their lords.
E. The work in medieval Europe was so basic that it did not matter if employees were motivated or not.

14. Suppose that the share of capital, labor and land in national income are each one third. Suppose also that the rate of the growth of capital per person is always the same as the rate of growth of income per person. In that case a 1% increase in the efficiency of the economy will raise output per person by

A. 1%
B. 0.33%
C. 1.33%
D. 1.5%
E. 0.67%
Part B: LONG ANSWER (30pts – parts (a), (b), (c))

Some economics argue that institutions generally adapt to be close to efficient, even when for religious or social reasons they initially restrict economic activity.

(a) Explain the reasoning behind this argument (8)
(b) Give examples of such evolution of institutions towards efficiency from pre-industrial Europe. (12)
(c) Explain the logic of the counterargument that inefficient institutions can persist, giving examples. (10)