
Midterm Exam

You have one hour and twenty minutes to complete the exam, be certain to watch the clock and use your time wisely. Answer questions completely but concisely. Including additional incorrect information in an otherwise correct answer may result in a loss of points. As a rough rule of thumb, five points typically take two well-crafted sentences to answer correctly and completely. So a 10-point question typically requires four concise sentences to answer. You may refer to hard copies of your notes, the lectures slides, and the readings. Good luck!

Name:

ID Number:

1. (20 points) When discussing the Feir, Gillezeau and Jones (2017) paper on the impacts of the slaughter of the bison, we also talked about the broader literature on economic development. Specifically, we considered Jared Diamond's discussion of initial natural endowments ultimately leading to 'guns, germs and steel' and Acemoglu, Johnson and Robinson's arguments about the role of colonial institutions leading to a reversal of fortunes.
 - (a) Do you think Feir, Gillezeau and Jones (2017) offer evidence in support of Diamond's theory or do you think they offer evidence to counter his theory? Fully explain your answer in no more than five sentences.
 - (b) Do you think Feir, Gillezeau and Jones (2017) offer evidence in support of Acemoglu, Johnson and Robinson's theory or do you think they offer evidence to counter their theory? Fully explain your answer in no more than five sentences.

2. (20 points) Assume that the Northern and Southern colonies are both subject to the Malthusian trap in the early 1700s. Also assume that both the North and South have the same birth rate curves and death rate curves.
- (a) How do you expect the technology curve to differ for the North and the South? Be certain to address both the slope and level of the curve and be certain to fully explain your reasoning.
 - (b) Regardless of how you answered part (a), assume that the technology curves are such that the North and South have the same population in equilibrium but the South has a steeper technology curve. Draw two sets of graphs, one showing the birth and death rate curves and the second showing both the Southern and Northern technology curves, being certain that they are consistent with this assumption. (Note that we are still assuming the North and South have the same birth and death rate curves.) Clearly label your curves as well as the equilibrium income per capita, birth and death rates, and population sizes.
 - (c) Now suppose that an improvement in shipping technology makes both the South and the North more productive. Also assume that this improvement shifts both technology curves up by the same amount. On a graph with time on the horizontal axis and income per capita on the vertical axis show how this improvement in technology changes income per capita over time for both the South and the North. In words, explain the economic intuition behind any differences on your graph between the experience of the North and the South.

3. (20 points) In class, we discussed Andrew Jackson's removal of federal deposits from the Second Bank of the United States, placing those funds in private banks instead. This took place in 1833, just a few years prior to the Panic of 1837.
- (a) Many early- and mid-twentieth-century historians and economic historians placed significant blame on Jackson for the Panic of 1837. In no more than four sentences, explain why the removal of federal deposits from the Second Bank of the United States may have contributed to the Panic of 1837.
 - (b) Ziebarth (2013) explored the consequences of bank failures during the Great Depression, exploiting the fact that some Mississippi banks faced the supportive policies of the Atlanta Fed while others faced the more harsh policies of the St. Louis Fed. In no more than three sentences, explain why this lets Ziebarth estimate the *causal* effects of bank closures on manufacturing and employment.
 - (c) Suppose that we tried to do something similar to Ziebarth (2013) using the variation generated by Jackson's change in policy to estimate the effects of the Second Bank of the United States on manufacturing and employment. If we did this by simply comparing manufacturing output and employment in counties before Jackson removed the federal deposits to those same variables after he removed the federal deposits, would this provide causal estimates of the effect of the Second Bank of the United States on economic activity (or, equivalently, of Jackson's change in policy on economic activity)? Be certain to fully justify your answer in no more than three sentences.

4. (20 points) In class, we spoke about two different models of indentured servitude. In the standard model, the laborer and shipper strike a contract of a certain length before crossing the Atlantic and the shipper then sells that contract to an employer after arriving in America. Under the redemptioner model, the laborer borrows money from the shipper to pay for passage and then, once across the Atlantic, finds an employer and negotiates a contract with that employer long enough to pay back the shipper.
- (a) Explain one reason that a laborer may prefer to take the standard approach rather than the redemptioner approach. Use no more than two sentences.
 - (b) Explain one reason that a laborer may prefer to take the redemptioner approach rather than the standard approach. Use no more than two sentences.
 - (c) We discussed the ways that certain human capital characteristics were associated with contract length. Suppose that the contracts used to produce those estimates only came from indentured servants taking the standard approach. Do you think the coefficient on literacy would be biased upwards or downwards due to excluding servants taking the redemptioner approach? Be certain to fully explain your answer in no more than four sentences.

5. (20 points) One innovation that was just getting going in the 18th century was the steam engine. One thing the steam engine would do is lower transatlantic shipping costs due to the introduction of steam-powered ships.
- (a) Assume that the introduction of steam power lowers transatlantic shipping costs but not shipping costs within Europe (the ships were too large to use on non-oceanic voyages). On a figure showing the European demand for tobacco, the supply of tobacco from colonial planters, and any other curves you deem necessary, show how this changed the burdens of the Navigation Acts on colonial tobacco planters' producer surplus. Be certain to clearly label all relevant curves, prices, quantities and areas on the graph. Include a written explanation of why producer surplus would change for colonial tobacco planters.
 - (b) If colonial planters anticipated these effects of the steam engine, how would that change the conclusions of Sawers (1992) on the role of economics and the American Revolution? Be certain to fully explain your answer in no more than four sentences.