

## **ECONOMICS 113 – MIDTERM EXAMINATION #2**

**PART I. Table Identification** (12 points total; 9 minutes total) **CHOICE: Answer two of the three questions.**

1. What are the data in the table saying? (3 points) Does Troesken find these results surprising or not surprising? Briefly, why? (3 points)

<b>Regression Results (partial)</b> (standard errors in parentheses)			
Effect on typhoid rate:			
	Black	White	Black - White
Public Water? <small>(1 if yes; 0 if private)</small>	-15.4 (6.5)	-3.6 (2.8)	-13.5 (4.0)

Source: Troesken, Table 2

2. What are the data in the table saying? (3 points) Briefly, how does Olney explain the different results for the different types of credit? (3 points)

<b>Predicted Likelihood of Using Credit</b>			
	White means & White coefficients	Black means & Black coefficients	Black means & White coefficients
Installment	25.2	77.4	79.9
Merchant	16.6	15.8	30.1

Source: Olney, page 423-24.

3. The data in this table present a puzzle. What is the puzzle? (3 points) Briefly, what is Hannon's explanation? (3 points)

<b>Earnings by Nativity for Michigan Industrial Workers, 1890</b>			
	Foreign Born	Native Born, Foreign Parent	Native Born, Native Parent
<b>DISTRIBUTION OF POPULATION</b>			
Big Cities	69 %	61 %	30 %
Small Cities	31 %	39 %	70 %
<b>ANNUAL EARNINGS</b>			
Big Cities	\$ 466	\$ 448	\$ 600
Small Cities	\$ 483	\$ 473	\$ 474

Source: Hannon, p. 830.

Part II. Using Economic Models and Concepts to Explain Historical Events (36 points total; 27 minutes total)

1. (12 points) Use the concept of externality to explain why the government subsidized the construction of railroads. What form(s) did the subsidy take and why?

2. (12 points) Explain how the regression results relate to the equation

$$\frac{\left( \frac{E_2 - w_2}{w_2} \right)}{1 + r} > \frac{C + w_1}{w_2}.$$

<b>Determinants of High School Graduation Rates, 1910</b> (standard errors in parentheses)	
log per capita wealth	0.236 (0.09)
% population ≥65 yrs old	2.13 (0.26)
% labor force in manufacturing	-0.067 (0.034)
% population Catholic	-0.0913 (0.031)
South (0/1 dummy variable)	-0.0449 (0.01)
New England (0/1 dummy variable)	0.0444 (0.01)

Source: Goldin & Katz, "Human Capital and Social Capital," Table 1.

3. (12 points) Explain how the regression results relate to the concept of asymmetric information.

<b>Determinants of 1920s Bank Failure in Kansas</b> (standard errors in parentheses)	
<i>Results for counties with ≥ 5 banks</i>	
%Δ value per acre of farmland & buildings	-0.41 (0.15)
% Δ total farm acreage	0.15 (0.29)
% of state banks with deposit insurance	0.11 (0.06)
% Δ county's population, 1920-1930	0.00 (0.11)
# banks per person	0.22 (0.47)
% of banks that were national banks	0.40 (0.19)

Dependent variable: banks that failed or chose to liquidate. *Source:* Wheelock, Tables 1 and 2.

**PART III. Paired Identification** (24 points total; 18 minutes total) **CHOICE: Answer two of the three questions.**

Choose **two** of the following **three** pairs of items. First, in your mind, figure out the historical connection between the two terms. Then, on your exam, define or identify or describe each term in the pair (6 points), providing enough detail to support the connection between the terms. Then, finally, discuss the connection between the two terms (6 points). Each answer is worth 12 points total. You should spend about 7 minutes on each question.

1. (a) Farmer unhappiness in the late 19<sup>th</sup> century  
 (b) Changes in the distributions of output and of labor (see tables)

<b>Distribution of Total Output</b>				
	Agric	Manuf	Transp	Trade Finance & Services
1869	22	15	11	41
1879	19	13	13	43
1889	14	19	11	42
1899-1903	18	19	10	40

Source: Value Added, Billions of 1879 Dollars, *Historical Statistics*, Series F251-F261.

<b>Distribution of Labor Force</b>				
	Agric	Manuf	Transp	Trade Finance Services
1870	53	19	—	24 —
1890	43	19	6	21
1910	31	22	9	25

Source: 1870-1920, *Historical Statistics*, Series D152-D166.

2. (a) Immigration in the 1920s and (b) Housing starts in the 1920s
3. (a) Urbanization and industrialization in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries  
 (b) Advertising in the early 20<sup>th</sup> century

**PART IV. Short Essay Question** (28 points total; 21 minutes total)

There is just one question, but there are choices within the question. Base your answers on lecture, discussion section, **and** the assigned reading. *Complete answers will draw from all three sources.*

1. The Great Depression of the 1930s followed on the heels of the Roaring '20s. This question explores the contrast between these two decades: one of despair and one of prosperity.
  - (a) (4 points) Why are the 1930s referred to as the "Great Depression"? In your answer, define the terms "recession," "recovery," and "depression."
  - (b) (6 points) Choose any **two** economic statistics that we used to depict the 1930s economy. For each, describe it and contrast it with that same aspect of the economy in the 1920s.
  - (c) (6 points) One unanswered question about the Great Depression is "Why was it so severe?" Choose any one answer **offered before 1970** (including perhaps from the film). What is that explanation of the severity? Connect that explanation to the events of the 1920s.
  - (d) (6 points) Now, choose any one answer **offered after 1980**. What is that explanation of the severity? Connect that explanation to the events of the 1920s.
  - (e) (6 points) Another question about the Great Depression is "Why was it so long?" Choose either fiscal policy **or** monetary policy. What role did this policy play in the length of the Great Depression?