

U.S. Economic History – Econ 4524
Lee Alston Fall 2010
Exam 2

Long Essay Questions (50 points)

1. What was the record of African-American economic progress in the South from the Civil War to World War I ? (20 points) What factors promoted and impeded progress compared to the economic progress of whites? (30 points)

pt. 1 20 points.

Initial Post-Slavery Period in South One of Poor Overall Economic Performance {25% Decline in Output between 1860 and 1870; Surpassed Original Level by 1880; <1% average annual growth for two decades; Substantially Lower Cotton Prices}-this had an impact on African Americans because they lived in the South and most engaged in agriculture, especially cotton.

5 points for a discussion of the overall background conditions

Economic Situation of Blacks Improved Post-Slavery (but below Expectations).

-Improvements:

- > Large Improvement in Literacy (5% in 1865 to 70% in 1910)
- > Increase in Life Expectancy at Birth (32 in 1850 to ~41 in 1890s)
- > Increase in Income Relative to Whites (24% in 1868 to 35% in 1914)
- > Property Ownership Increased (from nil to 27% of Blacks by 1900)
- > Positive Growth of Real Black Wealth (9%/yr. 1875-1892; 0%/yr. 1893-1902; 6%/yr. 1902-1915)
- > by 1880, 25% of African-American farm operators (owners, tenants and sharecroppers as the denominator) owned the land that they worked.

3 points for a discussion of each of these.

pt. 2 - 30 points

Although Blacks Were Relatively Better-Off Compared to Whites, Their Situation Remained One of General Impoverishment. The Following Factors Impeded Their Relative Economic Progress:

- > Relatively Poor and Uneducated Compared to Whites
- > Actively Discriminated Against
- > Opportunities below Expectations – no forty acres and a mule.
- > Persistent Inequality in public services
 - Despite above Improvements, Blacks far below Corresponding Statistics for Whites (e.g. black school expenditure 17% in LA comp. to 75% in DE)
 - Segregation (No Incentive for Human Capital Accumulation)
 - Post-1890s Regress in Civil Rights (4 ex.)

4 points for a discussion of each of these.

Factors Promoting their Relative Economic Progress:

- > Competitive Markets
- > Individual Whites
- > Increased literacy and numeracy along with effort promoted progress

10 points for a discussion of competitive markets

5 points for either a discussion of individual whites helping them and literacy/numeracy combined with initiative.

Short Essay Questions

1. (10 points) What factors are primarily responsible for native born Americans to move from state to state and how did the importance of these factors change over time?

1^{1/2} points for a discussion of each of the first five factors responsible for migration, .5 points for age, and two points for a discussion of the changing importance of factors over time.

Factors accounting for migration from state of origin to destination state:

1. **Higher relative income in destination state**
2. **Distance – the further away the less likely to move to that state**
3. **Job opportunity – unemployment rate or total # of jobs**
4. **Availability of Land – population density**
5. **Latitude – agricultural skills are typically specific to latitude as is cultural adjustment.**
6. **Age- young have a longer period to reap the rewards.**

From 1850 to 1960: the first five factors account for 80% of variation in state to state movements, e.g. % people moving from Illinois to Colorado or the reverse

Over time income became more important and distance, population and latitude less important.

2. (15 total points) The U.S. became much more of an urban society during the period between the Civil War and World War I. What factors accounted for the rise of more cities (population greater than 2,500) and what factors accounted for some already large cities to become very large, e.g. New York, Chicago, Boston, Philadelphia and so forth (10 points). What factors cause some businesses to bunch together and others to separate spatially? Give an example of each? (5 points)

5 points for the rise of new cities which was a trade-off between transportation costs and economies of scale

5 points for a discussion of agglomeration economies – the benefits that a firm or individual receives from being close to suppliers or demanders or complementary services that you used, e.g. banking, insurance, close to a railroad hub or electricity or coal..... also locational advantages of being a port or hub.

2.5 points for a business that receives benefits from another business, e.g. a firm that needs electricity or banks and insurance companies or antiques stores

2.5 for spreading apart, e.g. grocery stores.

3. (15 points) During the period following the Civil War until the late 1890s the price level generally declined. Using the Quantity Theory of Money – ($MV = PQ$)– explain why the price level declined and explain what happened to each component, that is what happened to M, V, P and Q?

About 4 points or each.

M grew at a rate of 5.3% a year from 1867 to 1914

Q was at full employment, except for periodic recessions, especially the nineties but overall Q grew at about 4%

Prices fell at an average of around 1.3%

As a result V must have fallen

The more specifics that they know the better. They should say that Q went up, M went up but not sufficiently to prevent P from falling and V fell.

4. (10 points) The decision to vertically integrate or disintegrate involves exchanging one set of transaction costs for another. Discuss the transaction costs and give examples of integration and disintegration.

Transactions costs of using the market, i.e. Disintergration : timing of inputs, measuring the quality of inputs; assuring the quality of service which would affect your demand for a good; legal costs if there are a dispute. If these costs are high you integrate.

Transaction costs of using the firm or vertical intergration: monitoring labor is the principal cost of intergration along with the know how of telling people what to do and when to do it (coordination costs).

Examples could be real world or made up. I talked about singer sewing machine intergrating forward so as to assure service of their machines. One could discuss an automobile firm deciding not to make batteries or tires but instead buy them which would be disintegration.

3-4 points for a discussion of the factors causing vertical integration and disintegration and 1-2 points for illustrative examples.