

Read All Instructions Carefully. Use a blue book. Be sure to put your name on the blue book cover, but not inside it. If you answer more questions than necessary, I will skip the last one(s) in your blue book.

I. (30%) Short Descriptions: Answer 10 of 12 (3% each) *In two to three articulate sentences each, define and/or explain each of the following, with some comment on their importance, context, or relevance.*

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|------------------------------|----------------------------|
| 1. Bolshevik Revolution | 7. New Economic Policy |
| 2. Freiburg School | 8. Perestroika |
| 3. Forced Savings | 9. Shortage Economy |
| 4. Material Balance Planning | 10. Soft Budget Constraint |
| 5. Meiji Restoration | 11. War Communism |
| 6. Monnet Plan | 12. Zaibatsu |

II. (45%) Short Answers. Answer *three* of the following four questions, each in a short essay. Each is worth 15%. Don't answer more than is necessary.

1. Sweden is often described as a corporatist economy because of the strong role its government plays in labor markets. Describe how this role started with the Saltsjobaden Agreement, explain the unique features of its labor markets, and explain the major Rehn-Meidner policies and how they made Swedish unions different from those elsewhere.

2. How did the Japanese *keiretsu*, or "main bank" system, affect Japan's postwar economic growth? What role was played by MITI? What was the bubble economy, what caused it, and what has led Japanese growth to slow so dramatically in the last decade? What role was played in this by the Ministry of Finance, the main banks, and the Bank of Japan?

3. How did Gorbachev initially attempt to accelerate the Soviet economy, and why? What were these policies of *Uskoreniye*, and what problems did they cause? How did the basic theses (*Osnovanye Polozheniya*) represent a shift in thinking about reform in the Soviet Union?

4. Give a brief overview of China's economic policies under Chairman Mao Zedong, with major periods/stages and approximate dates. How did Mao's policies affect China's economy?

III. (25%) Essay Question. Answer *one* of the following two essay questions in a single coherent essay.

1. Compare and contrast the economies of France, Germany, Japan, and Sweden. In particular, consider the unique characteristics of their economies, the economic role of their governments, and the degree to which their product, labor, and capital markets fit the basic competitive model. Then describe and discuss their economic performance in the postwar period.

2. How has the size and the economic role of the U.S. government changed over the past century? What were the major phases of change, and how has it changed over the past three decades? Put this in historical and relative perspective, and compare it to the other major capitalist economies. Is the evidence on U.S. growth and stability over time consistent with the arguments of laissez faire economists that an expanded role of government makes the economy grow more slowly, and that macroeconomic intervention by the government is actually destabilizing? Do your conclusions change if you consider instead a cross-country comparison among the major capitalist economies we considered?

END

1. **Bolshevik Revolution:** *The overthrow of the provisional government of Kerensky in St. Petersburg (Petrograd), Russia in November 1917. The Bolsheviks were communists led by Vladimir Lenin., and the revolution started a civil war that eventually led to the creation of the USSR.*
2. **Freiburg School:** *A German philosophical school under Alfred Muller-Armack that led to the formation of a middle way between laissez faire (classical liberal) capitalism and interventionism, between the Sociale Rechstat of individual rights and the Socialstat of social justice. The school was key to the formation of Germany's Social Market Economy.*
3. **Forced Savings:** *A result of the strategy of unbalance growth, in which consumers are forced to save because basic consumer good prices are low and production is also low, so they are unable to spend their money. Savings also results from the high profits of heavy industry (producer goods) which don't have to be paid out in wages, and the savings and profits are rechanneled into more investment in heavy industry.*
4. **Material Balance Planning:** *The quantity-based method of planning in which linear equations describe the inputs and outputs into the production process for every inter-related industry. Firms are thus given input and production quotas by the state instead of allowing the market to direct production, allocation and distribution, and there are many inefficiencies, incentive problems, and information problems which result.*
5. **Meiji Restoration:** *The turmoil which followed the arrival of Commander Perry's black ships and the opening up of Japan to the outside world. The Tokugawa Shogunate was ended in 1867, political power was given to the Meiji Emperor, and Japan began a dramatic policy of westernization and modernization.*
6. **Monnet Plan:** *The first of France's postwar indicative plans, in which six sectors of the economy were the target of modernization commissions that included input from leaders of government, business, and labor, and tried to share information, build consensus, and promote investment. It also sometimes refers to the plans for France getting access to German coal and steel.*
7. **New Economic Policy:** *Lenin's policy after the catastrophe of Russia's War Communism to "take one step backwards in order to take two steps forward." Markets were allowed to come back, peasants were encouraged to "get rich" and produce more food through taxes instead of outright confiscation, small state firms were leased to private entrepreneurs, and so on. It lasted from 1921-28, and resulted in both economic recovery and the "great debate" between teleologists and geneticists.*
8. **Perestroika:** *Gorbachev's "restructuring" policy of the late 1980s to try to save the Soviet economy by using radical reforms and market-oriented incentives. These were inconsistently or incompletely implemented, and did not succeed.*
9. **Shortage Economy:** *According to Kornai, the inevitable consequence of the classical socialist economy, which includes chronic shortages causes by non-market methods of coordinating an economy, resulting in peculiar behaviors.*
10. **Soft Budget Constraint:** *According to Kornai, the soft budget constraint is the result of a system in which state enterprises can negotiate with the planners on their inputs, outputs, prices, and taxes, in part because the planners know their expectations are arbitrary. The result is a weakened incentive to keep costs down and use resources sparingly.*
11. **War Communism:** *Lenin's policy during the Russian civil war from 1918-21, in which civilian labor armies were created, private capital was nationalized and managed under an structure called Vesenka, markets were banned, agricultural production was often confiscated, and even money was de-emphasized. It led to great famine and loss of life.*
12. **Zaibatsu:** *The large financial cliques or business conglomerates which controlled much of the Japanese economy through the end of WWII. Boards of directors had interlocking ownership and holding companies controlled by a small number of families, and the most famous included Mitsubishi, Mitsui, Sumitomo and Yasuda, though other smaller cliques included Nomura and Nissan. These were broken up after the war.*