E448 Lecture 5 Economic History

J.R. Walker

4 Feb 2014

Econ448 Lecture #5

Outline of today’s lecture

1. Clean up the discussion of comparative advantage and gains of trade.
   - Discuss table 16.5 and Figures 16.3 and 16.4 in textbook.
   - Define Ricardian model of comparative advantage. Gains of trade for Ricardo through the pursuit of comparative advantage.
   - Define Smithian Growth used by some authors. Gains of trade for Smith was division of labor (which is limited by the extent of the market). Division of labor and comparative advantage are related but distinct concepts. Comparative advantage applies without regard to size of exchange partners.

2. Reviewed material on comparative advantage and trade now, because of trade’s importance in understanding the industrial revolution.

3. Why cover Economic History?
   - Study of history provides context; builds perspective.
   - Develops alternative type of analytical skills: the ability to process and organize a large amount of information.
   - Difference between economic analysis (model based) and historical analysis (broad perspective; “all factor”). In economic analysis conceptual and analyze “within the model”. In history, gather facts obtain broad perspective and decide relative importance. Each analysis has own type of narrative and standards of evidence.
   - Both types of analyses must resolve notions of internal and external validity.
   - The fallacy of Saroyana claim: those who don’t study history are destined to repeat it. While people share experiences and histories no two people have identical experiences nor do countries. Each country follows its own path. And with a large number of variables determining current conditions, no two historical profiles are the same. The study of history is not to improve predictions based on common experiences. Rather the study of history builds a set of analytical skills and experience in making judgements about what is and what is not important for influencing behavior.

4. What is the role of history in economic development?
• Sets initial conditions.

  (a) History determines the distribution of wealth (a stock).

  (b) History determine the distribution of power.

  (c) Today’s setting is the sum of all past events and decisions. For example, to understand the 2012 presidential election, we would probably want to study national politics over Obama’s first term, Bush II presidency and maybe Clintons? But what about Bush I’s, Truman (1948)? To study how Obama became elected we will probably want to study the years of Bush II presidency, Clinton’s, Truman’s (1948)?

  (d) Example of initial condition North America versus Central America (England’s colonies versus Spain’s). In 1600, the “winner” appeared to be Spain, with its discovery and mining of gold and silver. Yet, over time, North America developed and became the leading economy of the world.

• Experience determines people’s expectations.

  (a) Investment requires forward looking behavior; subjective expectations on future costs and payoffs. Example, your investment in college education.

  (b) In many settings economic agents must determine whether or not to cooperate. Have again subjective beliefs about costs and payoffs. Their experience will be among the information processed.

5. Modes of Production

• Recall I introduced the three modes during the first day of class. I am not going to have much to say on the kin mode since we are not studying primitive societies.

• We will study the tributary and capitalist modes.

• Modes of production is just another name of political economy. What needs to be determined: what gets produced, by whom, and who consumes it?

• Tributary mode: allocation decisions made by political organization.

• Capitalist mode: allocation made through the market system (prices play a central allocative role).