

Part 1

1. I want the candidate to present Smith's view that competition was the key to economic development and efficient distribution of goods and services, and that government interventions like state monopolies interfere with this competition. It is important that the candidate understands that this does not mean Smith was pro-laissez faire. He also understood the need for governments to procure public goods, provide an institutional framework, and correct what would later be termed "market failures".
2. The candidate should explain Malthus' theory that population tends to grow exponentially, while the economy does not. In other words, that population grows faster than the economy. According to Malthus this leads to a perpetual cycle where as people get better off (due to increased economic activity), they have more children, which leads to increased competition over limited resources, eventually leading to recession, wars, famine and disease. This reduces the population, and the cycle can repeat.
3. A mid-range answer (D) only explains exactly what is happening in the graph; there is an increase in the quantity supplied from Q1 to Q2 which leads to a decrease in price from P1 to P2. A good answer (C-B) also explains why this happens and shows an understanding of the underlying theory and assumptions. An excellent answer (A), is also careful to note that the model is marginal, and explains what this means, and should point out that demand is held constant.
4. The candidate needs to explain the Marx believed that labor is the only source of value, but understand he did take such things as education, technology and experience into account (results of previous labor), not just raw hours of labor. The candidate should also relay how this relates to labor wages, owners of capital (means of production), surplus value, exploitation, and why this leads to class conflict.
5. The key points to this answer is that Keynes pointed out that wages tend to be "sticky", they do not respond to demand (at least not downward), and that the level of employment (and wages) affect aggregate demand in the market. The candidate should also point out how this can lead to a vicious cycle of decreasing demand.

6. The candidate needs to identify: compensatory, codign and conditioned power, and explain what each entails, as well as the most common source of each according to Galbraith. An excellent answer (A) also gives relevant examples.
7. The candidate should explain the technological business cycle as identified by Schumpeter, and the role of innovation in economic development. An excellent response also gives relevant examples.
8. The candidate should explain that baseballs are limited to manual labor, and do not allow for innovation. This means that they belong to the category of products with decreasing returns (the concept of decreasing/increasing returns is key). Golf balls on the other hand can be mechanically produced, are subject to increasing returns and allow for innovation which can produce synergies in other parts of the economy (plastics, aerodynamics and so on).

## Part 2

In these essay questions I am looking for the depth as opposed to the breadth of the candidate's knowledge. Structuring an essay, forming proper arguments and analysis as well as good writing, is also important in answering these questions.

1. The quote in this question is about inequality and poverty within countries, but it can be interpreted as reflecting between country inequality and poverty. The most important thing in this essay question is to demonstrate a solid understanding of Reinert's theoretical arguments, and that the candidate is able to use these to form his/her own arguments relating to inequality and poverty, and explaining why solving these issues is more complicated than a mere transfer of wealth. A good answer will be able to not only present Reinert's arguments, but clearly show how his theory of economic development relates to wealth inequality. Excellent answers (A) are also able to illustrate how this ties in with other relevant theories of inequality, such as Pikkety or Marx.
2. The candidate should identify, and structure his/her answer according to the *relevant* theories we have covered in the course. Neo-classical is by far the most relevant theoretical framework, but Marxist theory and Galbraith's arguments about power could also be used as a good addition. It is also important that the candidate makes *theoretical arguments* and not just policy prescriptions ("why would these policies work (theoretically)"). The "must-have" policies are carbon tax schemes and

emissions trading. Emissions caps, extraction halts, innovation and carbon neutral alternatives subsidies and much more is also relevant. Again, the key thing is to explain why these policies would (or would not) work from a theoretical perspective. Keynesianism, evolutionary economy and “modern political economy” are irrelevant to answering this question.