

Comments on one of the essays for ECON1910 (spring 2019)

Chosen candidate: 172522 Final grade: A

This essay merits an A as the candidate solves all questions correctly. In some aspects, the candidate shows a deeper understanding of the subject matter, which allows to grade this essay with an A even though there are some inaccuracies in the questions 2 and 4.

The first question is answered precisely, with a good understanding of the marginal product and the allocation of the labour force between the two sectors of the economy.

In the second question, the candidate shows part of the discussion that differentiates this work from a B. When explaining the effect of a free trade reform, the candidate observes correctly that the real wage, measured in agricultural units, goes down. Going beyond this, the candidate explains what this means in terms of purchasing power. A worker can buy fewer agricultural units for their salary but more manufacturing units. An avenue for further improvement would be to observe that the welfare effect of the reform for the workers depends on their initial allocation of wages to manufacturing and agricultural products as well as their willingness to substitute agricultural with manufacturing products. Moreover, when demonstrating the effect of the free trade reform, the candidate shifts the curve of the marginal productivity in the manufacturing sector parallel instead of changing the slope. As prices for each unit change, the effective marginal productivity changes proportionally. This is a common misconception of candidates taking part in the exam, only two candidates receiving an outstanding A noticed this point. Given that this has not been discussed in detail in the course, I consider this mistake not as an obstacle for still obtaining an A.

In the fourth question, the candidate explains how a high wage in the manufacturing sector may generate unemployment. The candidate has a clear grasp of the average expected wage in the city that will lead toward rural-urban migration even if there is unemployment in the city. The candidate explains this phenomenon both verbally and with figures, making the answer precise. Turning to measures the government could take to reduce poverty, the candidate discussed the option of agricultural subsidies, unemployment benefits and a basic income grant. The discussion of agricultural subsidies is well balanced, but the discussion of unemployment benefits misses several important points. Mentioning that unemployment benefits would lead to increased prevalence of unemployment while guaranteeing that the unemployed in the city will have some income would have been advantageous, in particular because this was covered in the course. The candidate graphically demonstrates those effects in a figure but fails to describe and interpret these effects in the text. Furthermore, it would be desirable to make an assessment which measures are most preferable. Given that this is an introductory course and candidates were only asked implicitly to discuss the measures, I do not consider this necessary to obtain an A. To make this essay a really good rather than a narrow A, an argument along the following lines should have been developed. First, the effects of the different measures should be described and compared (agricultural subsidies leads to fewer unemployed but those unemployed are in absolute poverty while unemployment benefits increase the number of unemployed but supports those that need it most). Then the candidate should clarify which ethical concerns they consider most important when judging

the measures. For example, one could argue with Rawls that a just society should maximise the income of the poorest and thus conclude that unemployment are the right option even if unemployment increases. Alternatively, one could argue that policy should reward work and promote full employment, concluding that the agricultural subsidies are better. Interestingly, it could go both ways when you go for utilitarianism: If you assume decreasing marginal utility of consumption you could justify unemployment benefits as the measure that maximizes the sum of utilities. Conversely, you could justify the agricultural subsidy when you assume linear returns to consumption, as total output is higher in that case and thus also the sum of (linearly scaled) utilities.