

UNIVERSITY OF OSLO
DEPARTMENT OF ECONOMICS

Exam: **ECON4921 – Institutions and Economic Systems**

Date of exam: Thursday, December 12, 2013

Grades are given: January 6, 2014

Time for exam: 09.00 a.m. – 12.00 noon

The problem set covers 2 pages

Resources allowed:

- No resources allowed

The grades given: A-F, with A as the best and E as the weakest passing grade. F is fail.

I. Short questions (weight 1/3)

Answer each question briefly, 1/2 to 1 page should usually be sufficient

- a) Discuss briefly Engerman and Sokoloff's justification for the reversal of fortune of the American continent.
- b) Explain how effort and prices are determined in the putting out system, and show that the worker is typically better off than her reservation utility. Why isn't the putter-out able to extract the whole surplus although he is a monopolist?

II. Long question (weight 2/3)

Answer each of the following questions

- a) Explain why trust may be difficult to sustain if people only meet once. It may be helpful to use a simple game. How may repeated interaction help reduce this problem?

b) How can the theory of trust outlined above help us in understanding the effect of trust on economic performance?

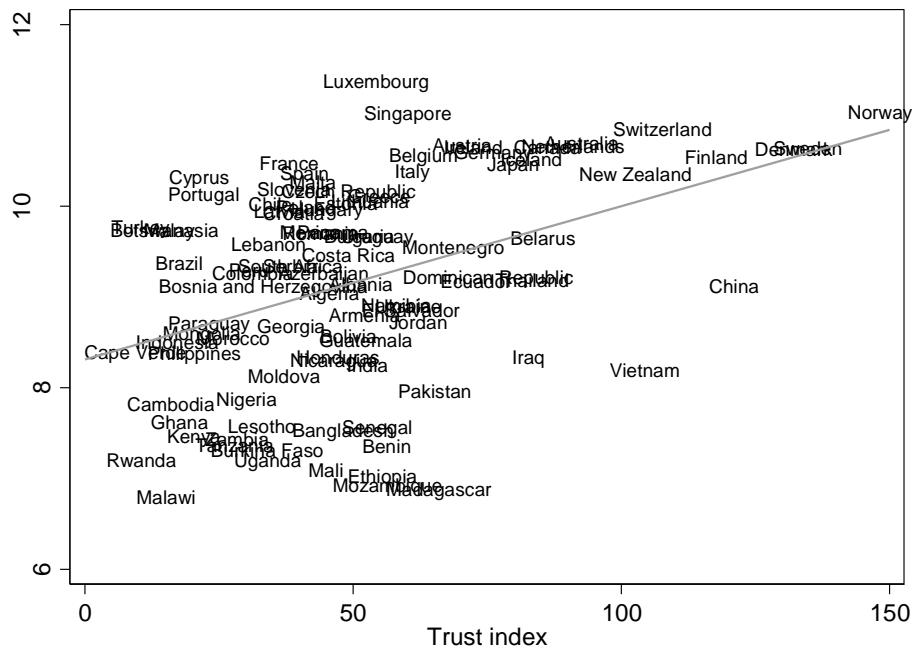


Figure 1 Trust and income levels

- c) A common way to measure trust empirically is through the equation
- $$\text{TRUST INDEX} = 100 + (\% \text{ Most people can be trusted}) - (\% \text{ Can't be too careful})$$
- Explain what this means and what sort of data you would need to measure it. Figure 1 above shows the relationship between this index and income levels (measured in 2012). Discuss the pattern between trust and income levels. What does the graph tell us about the effect of trust on economic performance?
- d) In question a) you explained how repeated interaction may lead to trust. However, in modern large economies we often have considerable trust in people we only meet once. Explain how this is possible in a game theoretic setting, using for instance the insight from Greif's model. Under what conditions is trust easiest to sustain?