Ec 565
Spring 2019
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MID-TERM 1 (March 6, 2019)

Each question was worth 5 points, except for question 10 with 10 points. The marks on the books are points taken off, from a total of 105. An exceptionally good answer may have received an extra point. The average and the median (about the same) are 83.

One could present the answers in two paragraphs, the first descriptive, the second answering the why question. I preferred to copy some answers from the bluebooks that are very good. I may add some comments.

1. *Where and when did the first network of cities appear? Suggest some causes.*

   "The first network of cities appeared in Mesopotamia. The geographical location and landscape was essential to the formation of the cities in this region. The area on which they arose was located between two rivers and provided them the necessary fertile ground and water access. The urbanization of Mesopotamia began in the northern part but eventually grew larger in the southern region. The distance between the cities allowed for communication and competition leading to numerous innovations." (Dayva).

   One could add that the northern part has a higher elevation where water comes from the rain and not from irrigation. That part saw the gradual build-up of villages, probably a necessary phase. The lower lower part has very low elevation with a system based on irrigation. The width of the valley enables the development of a network of cities (contrast with the linear topography of Egypt). The main reading is Jason Ur.

2. *What taxes were directly levied by the state in Egypt and what taxes were farmed out? Explain why.*

   "Direct taxes on cereal grains. The government controlled disbursement of seeds and tracked the flooding of the Nice, so they could easily determine how much grain people owned the government in taxes. It was also easy to collect since cereal grains were grown along the Nile's banks.

   Indirect taxes were on fruits, grapes. these taxes were farmed out since it was easier for tax farmers* to collect the taxes and tract tax revenues than it was for the central government." (Marybeth).

   * This is remark that is really interesting. I don't remember reading it in Jones. It makes the distinction state versus farming more sensible. The strong support for this conjecture is what happened in other places and times, the Riccati bankers of Edward I, the Genoese bankers of Philip II, the beer producers in England in the 18th century (to be seen later). The reading for this question is Jones.

3. *The figure on the next page reports the feature of some coins that circulated in the 6th century B.C., weight on the horizontal axis and percentage of gold on the vertical axis. What was the other metal in the coins? Assuming these coins did circulate, were they traded by weight or by tale. Discuss. (Be careful).*

   "The coins were electrum: a mix of gold and silver. These coins circulated by tale. this is apparent because the weights of the coins were very precise, but the mixture was extremely inconsistent. This suggests the tale value of the coins was determined by their weight, rather than by the market value of precious metals in the coins." (Marybeth).

4. *According to some evidence, were the finances of the Roman Empire centralized? (Your argument and evidence is more important than a "yes" or "no" answer).*

   It was centralized and decentralized. Provinces had to be a tribute. Egypt was heavily tax on wheat, and the same applied to North Africa (which was more productive than in modern days) and Sicily, also Gaul (current France). But some local expenditures were finances by local taxes as we have seen in the letters of Pliny. The same letters show that the central government kept a strong control on the provinces and their fiscal activities.

5. *When and where did the first documented charts appear that regulated rights and duties of people? To whom did these charts apply. Explain why they appeared at these places and at that time.*

   "The first documented charters wee the fueros in Spain. Notably, theres fueros gave property rights to people in an effort to attract them to the land gained on the Muslims during the Reconquista. These charters came abut around the year 1066 , which was before Magna Carta. The Len charter described a separation of Church and State [may be overstated here] as well as some women's rights. The Jaca charter created orders, having merchants, nobles at the same level and Muslims and Jews at the bottom. These charters were ultimately a direct result of the Reconquista." (Caitlin).

6. *What were the main changes in public finances that were achieved by Edward I in 13th century England? Explain how such changes were facilitated by special conditions in England.*

   (a) Transformation of the feudal dues (scutage of 40 days of service) into monetary dues,
   (b) frequent parliaments to approve money taxes,
   (c) money taxes on wool at specified harbors,
   (d) foreign borrowing (money) that were feasible because of the monetization and in particular the export tax on wool.

   The monetization enabled Edward I the development of a paid and disciplined army.

7. *What was an essential feature of the first Cortes in order to be called "parliaments". When (roughly) and where did the first ones appear? Why?*

   "An essential feature of the first Cortes (Cortes de León, 1188, in Northern Spain) was the inclusion of representatives that were chosen by cities, in addition to the delegates from the Church and the nobility. Rich merchants from the cities could vote on taxes that were needed during the process of the Reconquista. The representation of the cities was a natural step after the creation of the fueros for more than a century. The Reconquista provided an impulse for both institutions.

8. *Where did the first public debt appear (and roughly, when)? Explain the causes.*

   "The earliest evidence of long-term urban debt dates back to 1149 for Genoa and 1164 for Venice," (Fratianni and Spinelli 2006, required reading), which were city-states. The key element for the success of these public debt is that bond holders (rich individuals in the city) had a control on the taxes that could service the debt. It is possible that initially, the contributions of the rich individuals were forced for the general interest of the city-state and were associated with some promise for later return. The development of financial instruments for the active trading of the city-states in Northern Italy contributed to the evolution of these contributions into marketable financial instruments.

9. *The Casa di San Giorgio was founded shortly after 1400. Where? Explain the scheme using a stylized description of its balance sheet. Who benefited from such an institution? Was the institution successful?*

   "The Casa di San Giorgio was founded in the Italian city state of Genoa after its finances collapsed and it was heavily in debt. This institution took on the entire liability of the state's debt. It then pooled this debt together and sold it on exchange for equity in the institution. This meant that the state no longer had to sell many small contracts with higher liabilities but instead sold all of their debt of the institution. Both the state and the people buying debts benefited from this institution. It was successful until its fall in the 1800s." (Dayva)

" The Casa di Sa Giorgio was founded in 1408 in Genoa. The bank engrafted (English term) all of the state's public debt and issued bonds for them. The bank was created to finance the city of Genoa's public debt which it did through the use of debt for equity swaps. It would loan money to the government and helped them collect taxes to ensure that the debt was paid off and the shareholders received some dividend. ... The government, the people of Genoa and even foreign investors who were shareholders in the bank benefitted. The institution was very successful right up to its closing in 1807 by Napoleon." (Addhit)

10. *The following table describes hypothetical coins that have been issued in the years of the first column. F is the degree of fineness (in* **percentage** *of silver). N is the number of coins per marc (a unit of weight). L is the mint par (face value of coins per unit weight of silver). P is the price of silver (livre per marc). c is the brassage in percentage of the face value of the coin. (No calculator is needed). 1 livre=240 deniers.*

Coin of 20 Deniers

Date	F	N	L	P	c
1420	16.7	100	?	27	4.2
1421	10	120	100	50	7.6
1422	2.8	120	360	90	25

(a) *Recall briefly why it was a time of high inflation. Why was there high inflation. (If you are not too sure of the historical context, use your general knowledge about the usual contexts of inflation).* The kingdom of France (including Paris) had been invaded by England. Burgundy was allied to England. The tax base had been reduced to a territory in part of Southern France. The only way to finance the army for the recovery was seignorage.

(b) *What is the value of L for the coin of 1420? Could that coin circulate in 1421? in 1422? (The reason for your answer may more important than yes/no).* The mint value was 50. The coin **could** circulate in 1421 since the price of a unit-weight of silver was also 50. However, new coins at the same specification could not be made because of the cost of making the coins.

(c) *(Independent of the previous questions) In 1422, you are instructed to make new coins with a degree of fineness F and at the rate of 120 per marc (the unit of weight). You get the silver on the market at the price of $P = 90$ per marc of silver. Assume that the labor cost is zero. What is the maximum degree of fineness that this coin can have?*

$\frac{120}{F}\frac{20}{240} \geq 90. \qquad F \leq 1/9.$

Optional (additional points): assume that the labor cost is 1/4 of the face value of the coin, as indicated in the table. What is the maximum degree of fineness. Compare with the value of F in the table and comment. $\frac{120}{F}\frac{20}{240}(1 - 0.25) \geq 90. F \leq 1/12.$ (2 points for this question).