

SAMPLE MID-TERM EXAMINATION

*This is an **example** of what the questions might look like. The number of questions on the actual exam might vary. The content might also be slightly different depending on what gets covered in class.*

A. Answer any five of the following questions.

QUESTION 1. What is quasi-voluntary compliance?

Answer. See pp. 6–8 of the introductory lecture.

QUESTION 2. Give examples of at least three different types of polities that existed during the 17th and 18th centuries in Europe.

Answer. See pp. 4–8 of the lecture about international context and the state. Some examples: Holy Roman Empire, hereditary monarchies (Spain, France, England, Austria), elective monarchies (Polish-Lithuanian Commonwealth, Papal States), oligarchic republics (Venice, Genoa), federal republic (Dutch), parliamentary republic (English Commonwealth), confederations (Switzerland).

QUESTION 3. Tax-farming is very inefficient from the perspective of the ruler because the tax-farmer can exploit his informational advantage to siphon off huge profits in excess of the rents remitted to the ruler. In class it was argued that this is not necessarily the case. How so?

Answer. When the tax-farm is not too large, there will be many potential tax-farmers who can afford to manage it. The ruler can exploit this by offering the tax-farm rights at an auction. The tax-farmers will bid based on their expected profits, and so the highest bidder will have to win against others who have good information and who will correspondingly bid high. This competitive bidding can extract the informational rents without the ruler having access to any information provided there is no collusion among the bidders.

QUESTION 4. Because there might be occasions in which elites and the ruler have divergent preferences over policy, they will cooperate much less even on occasions when their preferences coincide. Explain.

Answer. The problem is that when cooperating on issues where they agree with the ruler, elites might give him resources that enable him to shift the distribution of power in his favor, so when the time comes to implement a policy with which they disagree, he will be better positioned to do so. For example, if elites fund an army for a defensive war, after the conclusion of this war the ruler will have a ready army, which he can either turn on the elites to force them to supply more revenue, or for pursuing a foreign policy with which they disagree.

B. Write a short essay on one of the following topics.

QUESTION 1. When the Thirteen Colonies rebelled against the “tyrannical” rule of the British King, they wanted to avoid the possibility of such a rule emerging in America. The Continental Congress, therefore, unified legislative and executive powers: it both appropriated money for the war and directed almost all aspects of the war effort. even It had no authority to raise taxes, so it had to rely on voluntary contributions from the colonial governments, issued paper money, and bills of credit. There are several problems with this system that would seriously impair the war-fighting ability of the Revolutionary forces. Name three, discuss why they put the Americans at a disadvantage, and propose remedies that would still address the original concerns of the colonies.

Answer. The first problem is with the voluntary funding arrangement. Even though the colonies shared an interest in gaining independence by winning the Revolutionary War, they disagreed on how to shoulder the burden of that war. There was a lot of free-riding by colonial governments when Congress requested funds, and in the end they paid something like a third of the amount requested. (Even without knowing the specifics of the case, the mere fact that Congress had no independent authority to levy taxes would lead one to expect the free-riding problem.) The army went

underfunded and undersupplied, which accounts for much of its abysmal performance until late in the war. The second problem is with war finance. With Congress having no ability to raise revenue and colonial governments refusing to raise taxes to absorb the excess currency, the public quickly lost confidence in the paper money Congress was issuing, and the value of that currency collapsed ("not worth a continental"). For the same reason, credit dried up as even Americans were unwilling to finance that war when there was little prospect of seeing their loans serviced. Foreign lenders also balked, with France, Spain, and the Dutch Republic only returning later in the war. To provide the bulk of the money for the fighting, which they did out of their rivalry with the British, not to see a return on their loans (which were really mostly subsidies; Congress defaulted on most after the war). The third problem is that in their unwillingness to create a strong executive, Congress attempted to direct war by committee, which proved highly inefficient for day-to-day military operations. These types of executive decisions must be done quickly given the ever-changing context on the ground, so there is no time to debate policy, especially when larger political issues are likely to intrude. This micromanagement by Congress was another reason the Americans generally performed very poorly until the later phases of the war. The remedies are precisely the ones that ended up in the Constitution: Congress gained authority to levy uniform taxes across the colonies, incur and service debt, and it gained exclusive authority to issue money. A strong executive was created, who was given wide discretion in implementing policy but Congress retained the power of the purse: sole authority to appropriate money, audit accounts, and the power to declare war. All of these were intended to ensure that the president will not face a moral hazard problem (misusing funds) or a commitment problem (developing a standing army and blackmailing Congress).