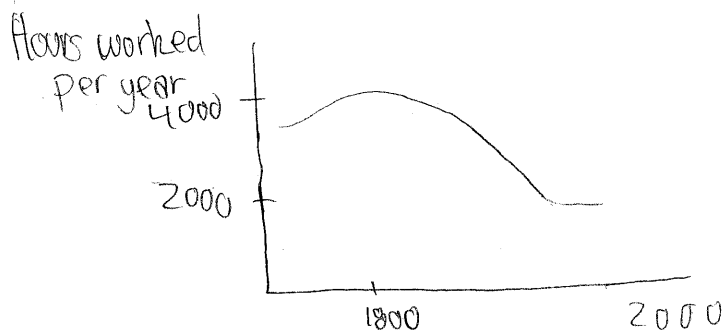
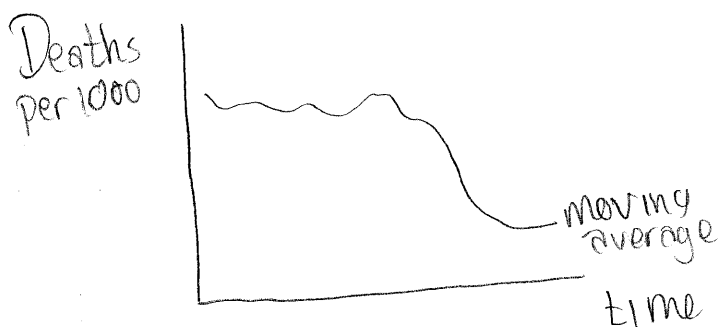
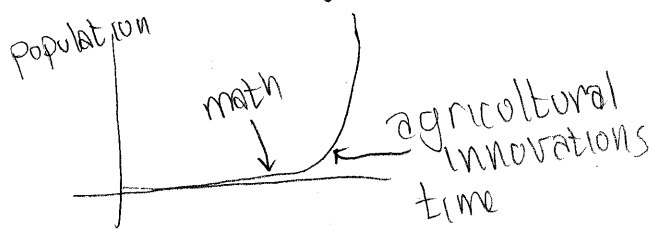


Wages and Prices since 1500: why care?

- Timing of economic growth
- Standard of living debates.
 - incomes
 - consumption
 - health (heights)



Explanations for I.R.

- Why England first?
 - Institutions
 - Glorious Revolution
- Macro models
 - Based on outdated data series

Bob Allen article

- Not good data
- Price indices require a market basket.

Laspeyres index: Allen used a subsistence basket (bread, beer)

- Problems with bread: differences in types of bread
- Earlier indices used price of grain
 - wholesale - doesn't account for value added by bakers, millers, etc.
- Fixed price of bread. (regulated)
- No rents in the price index. (small component of income went to rents.)
- The divergence began to occur before the IR (1500s - 1700s).

For a long time real wages were approximately constant.

In the UK despite population increase, real wages did not rise.

Take-off in real wages began after 1870.
(~second industrial revolution.)

Weingast, Milgrom, Grief

Did merchant guilds help or hinder innovation?

Contracting problem.

Institutions as solutions to contracting problem.

Institutions: rules, customs (beliefs), norms, organizations

Specific problem merchants faced:

- worried about the hold-up problems
- expropriation by rulers (or mobs)

Striking about merchant guilds: The rulers were quite willing to give merchant guilds some power

- precommitment mechanism for the rulers

(*) Competition among states lead to more rights for guilds?

Need internal enforcements: need long time horizons, good information to aid monitoring.

Anecdotal evidence used in this paper.

What becomes of the guilds?

- once states take over these functions, the guilds are not as necessary.

Long-run effects of institutions (Acemoglu, Johnson, Robinson)

- very costly to eliminate existing institutions

Why do institutions initially develop?

Economic divergence: who develops these institutions?

Middle ages: looking at a long period of time with static (relatively) institutions can be helpful.

Modern period - causality becomes more difficult to determine.

Drawbacks of using the Middle Ages

- very little data. (anecdotal)

(*) Can do this type of paper if you are a theorist.

- difficult - need to know lots of institutional detail.

(*) Punishments in contracting.

(*) Do not write a paper on history of economic thought.