

The Economic Development of Finland

Lecture 1: Introduction

Gross Domestic Product (GDP)

- Can be calculated in several ways, but it always measures the output (of products, services, etc.) of an economy
 - The most simplified form can be expressed as:
$$GDP \text{ at market prices} = C + I + G$$
where C is the consumption of the private sector (households and firms), I is investments and G is the government consumption. The identity can be extended to include exports, imports and taxes.
- GDP per capita gives the production of an economy in relation to the population of a country

$$GDP \text{ per capita} = \frac{GDP}{\text{population}}$$

Growth of GDP

- $g = \frac{X_{t+1} - X_t}{X_t} \approx \log X_{t+1} - \log X_t$
- If $X_t = 100$ ja $X_{t+1} = 105$,

$$g = \frac{105 - 100}{100} = \frac{5}{100} = 0.05 = 5\%$$

$$g \approx \ln(105) - \ln(100) = 0.48 = 4.8\%$$

Purchasing power parity

- Floating (or even fixed) exchange rates makes it hard to compare the GDP between countries:
 - Market exchange rates fluctuate daily (fluctuations can be large)
 - Price of goods traded in international markets compared to those of the local markets (e.g. price of a restaurant meal vs. iPhone) may differ greatly in poor and rich countries.

Country	Production of Televisions per Capita	Production of Haircuts per Capita	Price of Televisions in Local Currency	Price of Haircuts in Local Currency	GDP per Capita in Local Currency
Richland	4	40	10	2	120
Poorland	1	10	10	1	20

- To fix these problems, a set of artificial exchange rates, *purchasing power parities (PPP)*, were created.
- They are based on the prices of standardized basket of goods and services (traded both in international and local markets).

How PPP transformations affect country comparisons

Country	GDP per Capita in 2009 Using Market Exchange Rates (dollars)	GDP per Capita in 2009 Using PPP Exchange Rates (dollars)
United States	41,099	41,099
Japan	36,651	30,008
Germany	36,702	32,488
Argentina	6,519	11,961
Mexico	7,257	11,629
India	1,041	3,239

Birth of Finland

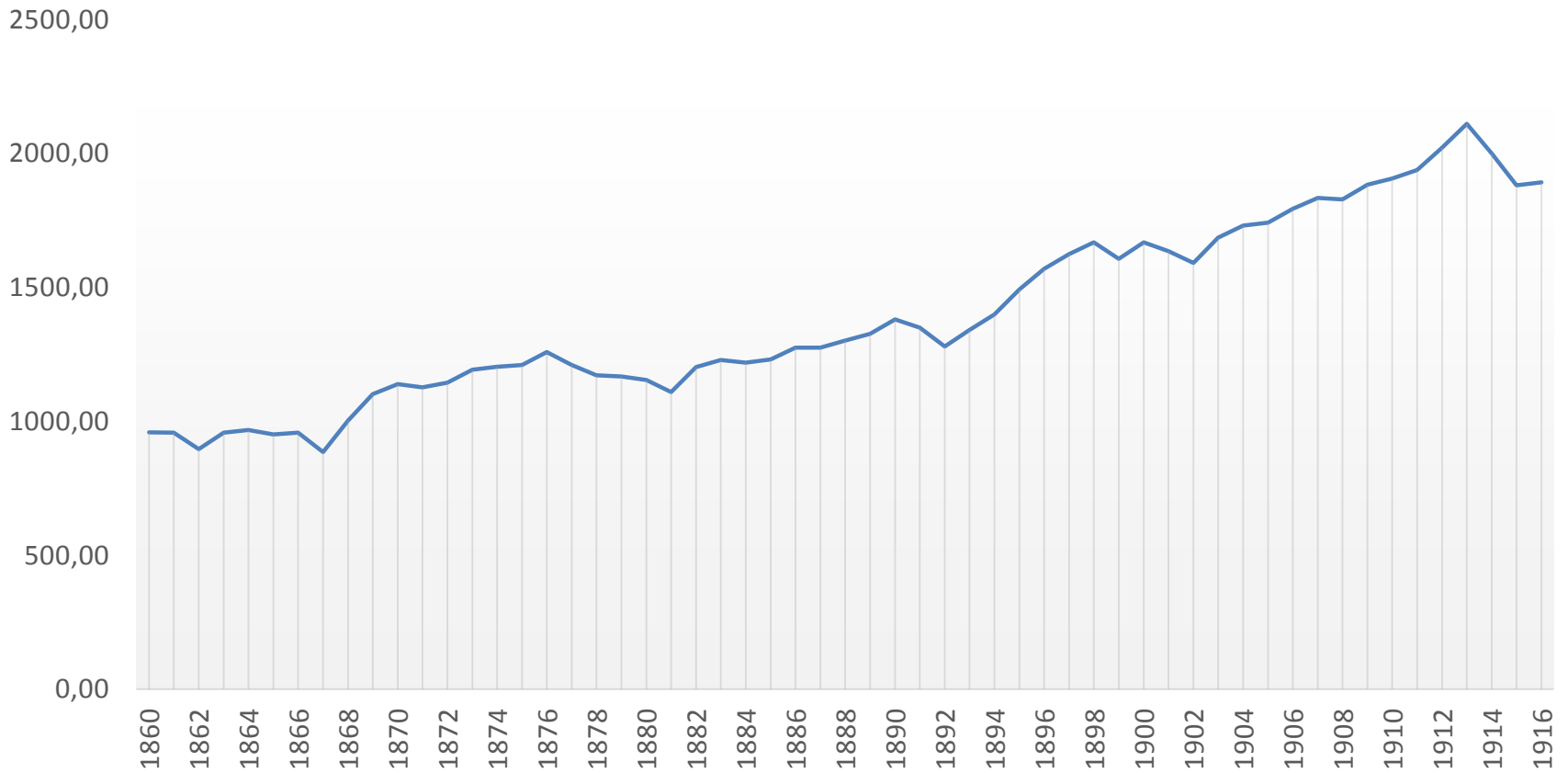
- Russia invaded the land area of Finland from the Sweden in the beginning of the 19th century.
- In March of 1809, the Parliament of Finland gathered for the first time in the city of Porvoo
- The parliament and the Tsar Alexander I agreed that Finland would become a Grand Duchy, that is, an autonomous part of the Russian empire
- The constitution of the former State of Finland-Sweden became the basis of constitution of the Grand Duchy of Finland

Birth of markka

- Tsar Alexander II's manifesto in 4 April 1860 established markka as Finland's currency
- This started the path to independence and to economic progress
- After 1863 the Parliament of Finland started to assemble regularly
- It passed many laws that liberated the economy and improved employment

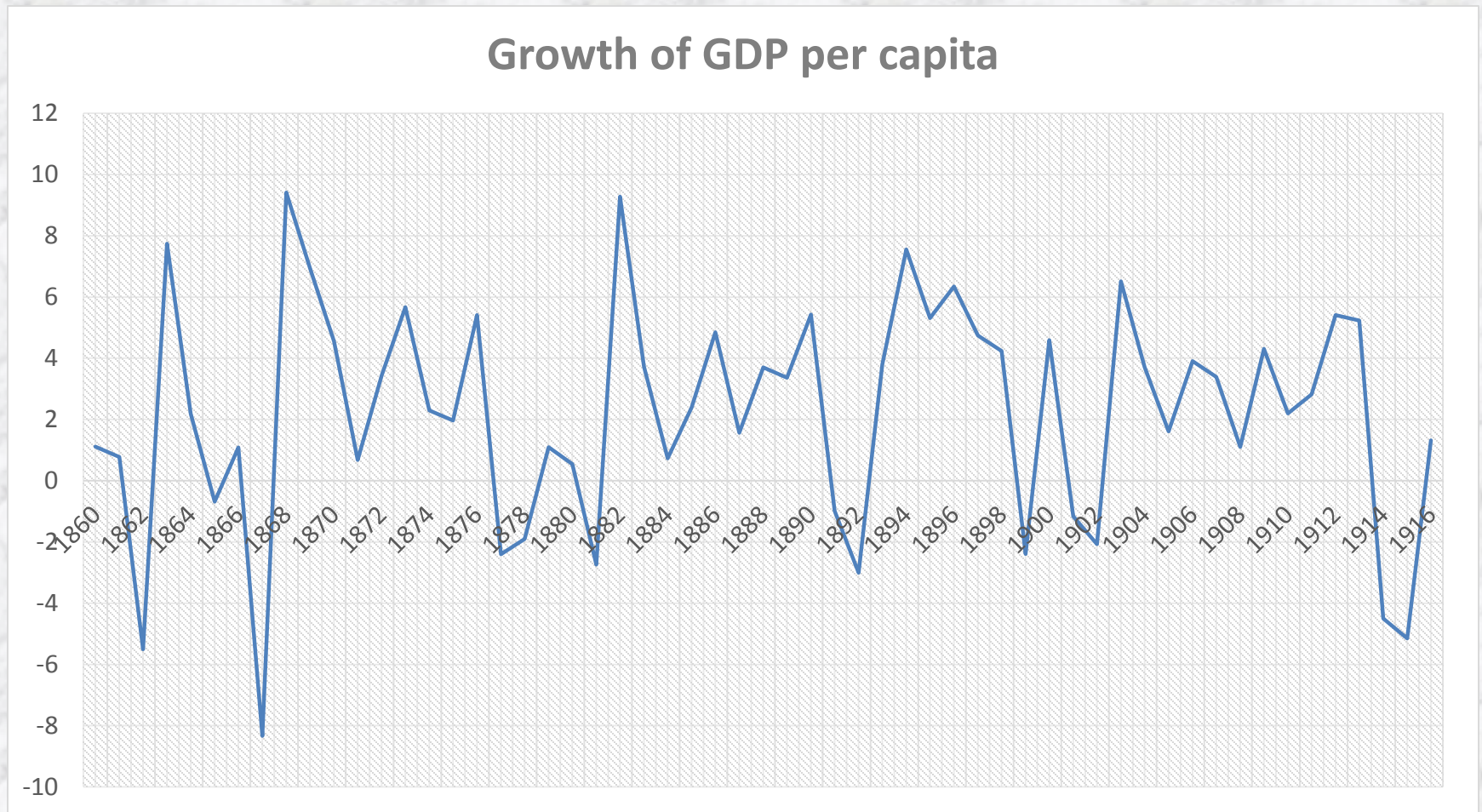
GDP per capita during autonomy

GDP per capita



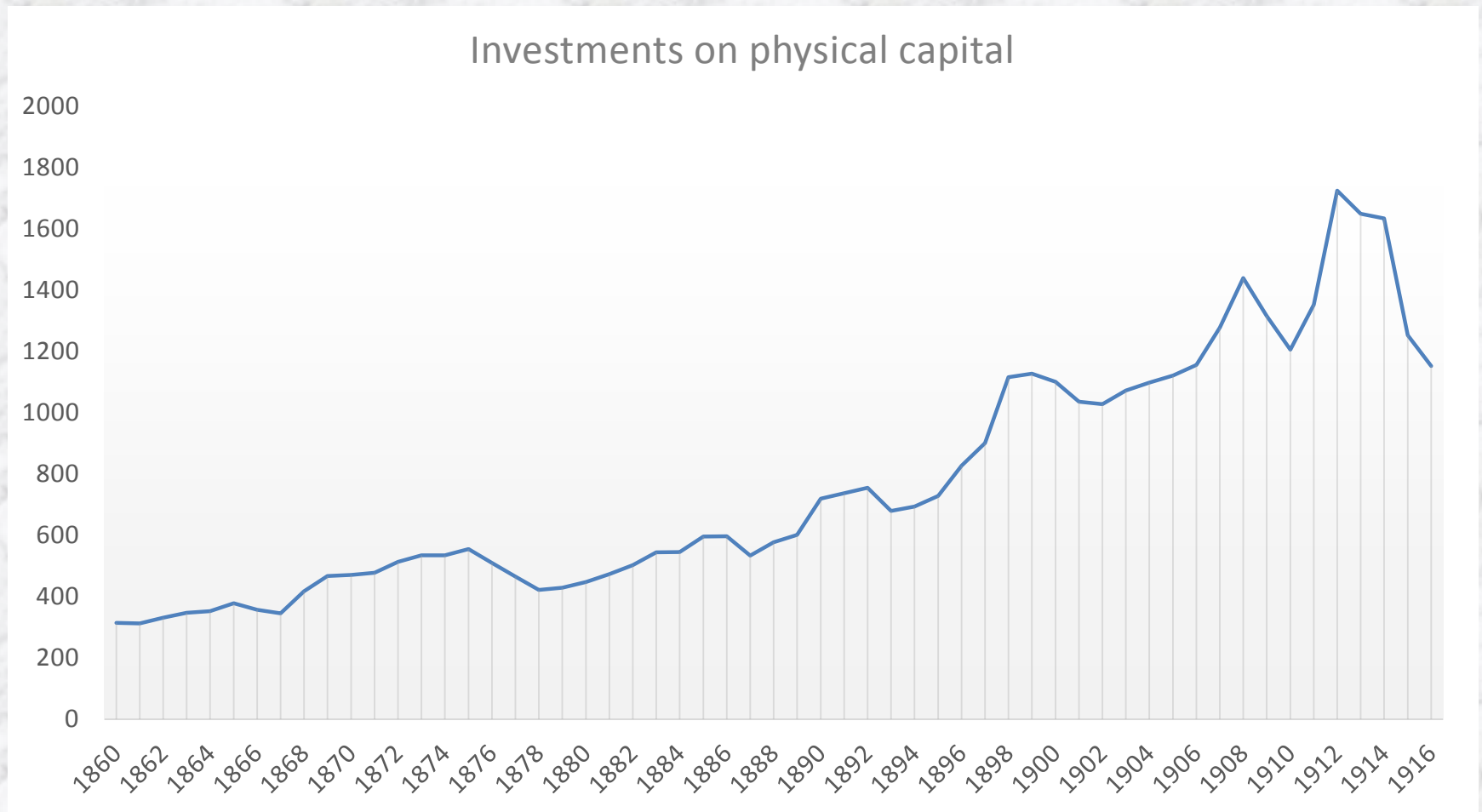
Source: Maddison
database

Growth of GDP per capita during autonomy



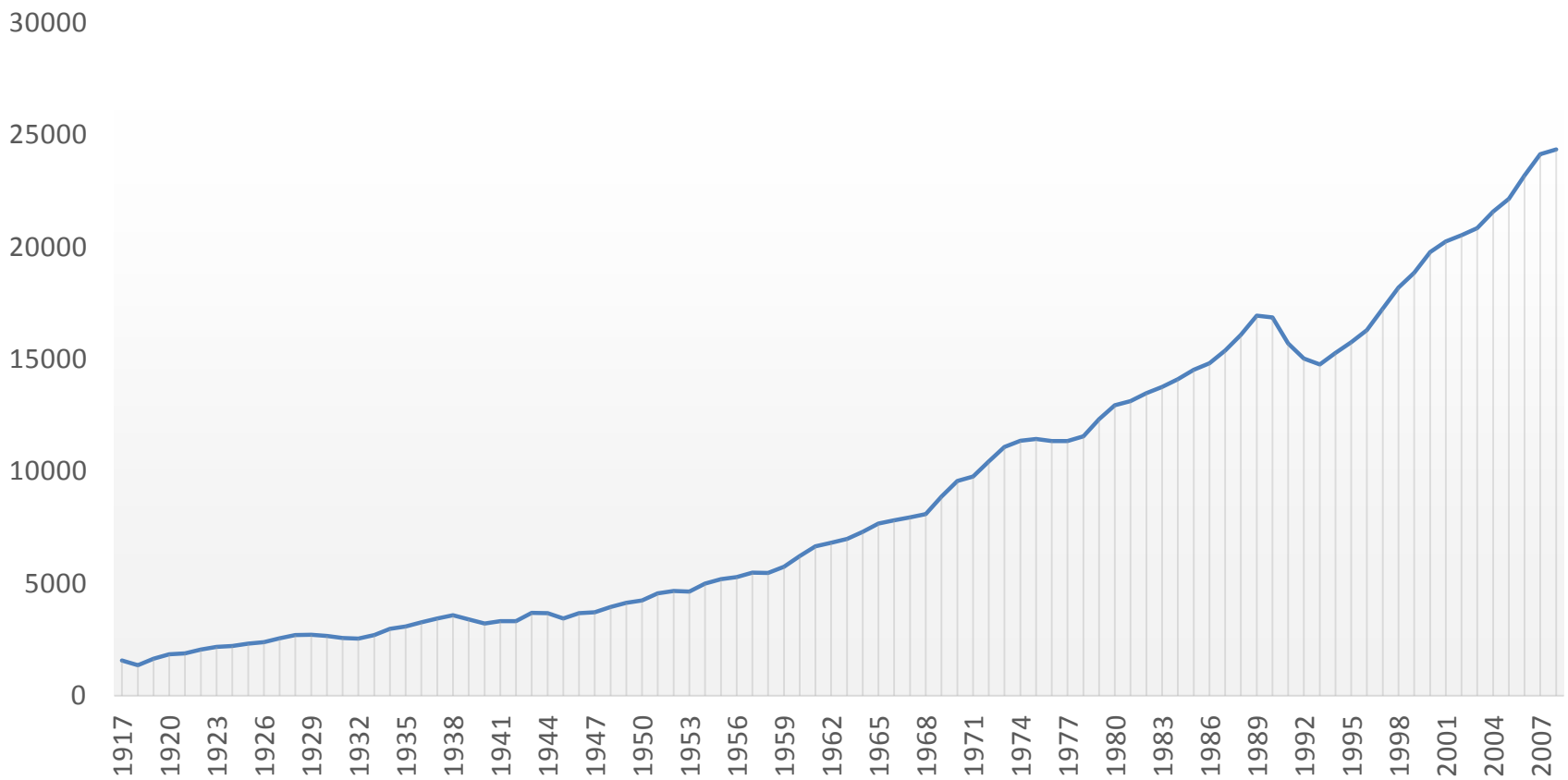
Source: Maddison
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Physical capital in Finland during autonomy



The economic development of independent Finland (1917-2008)

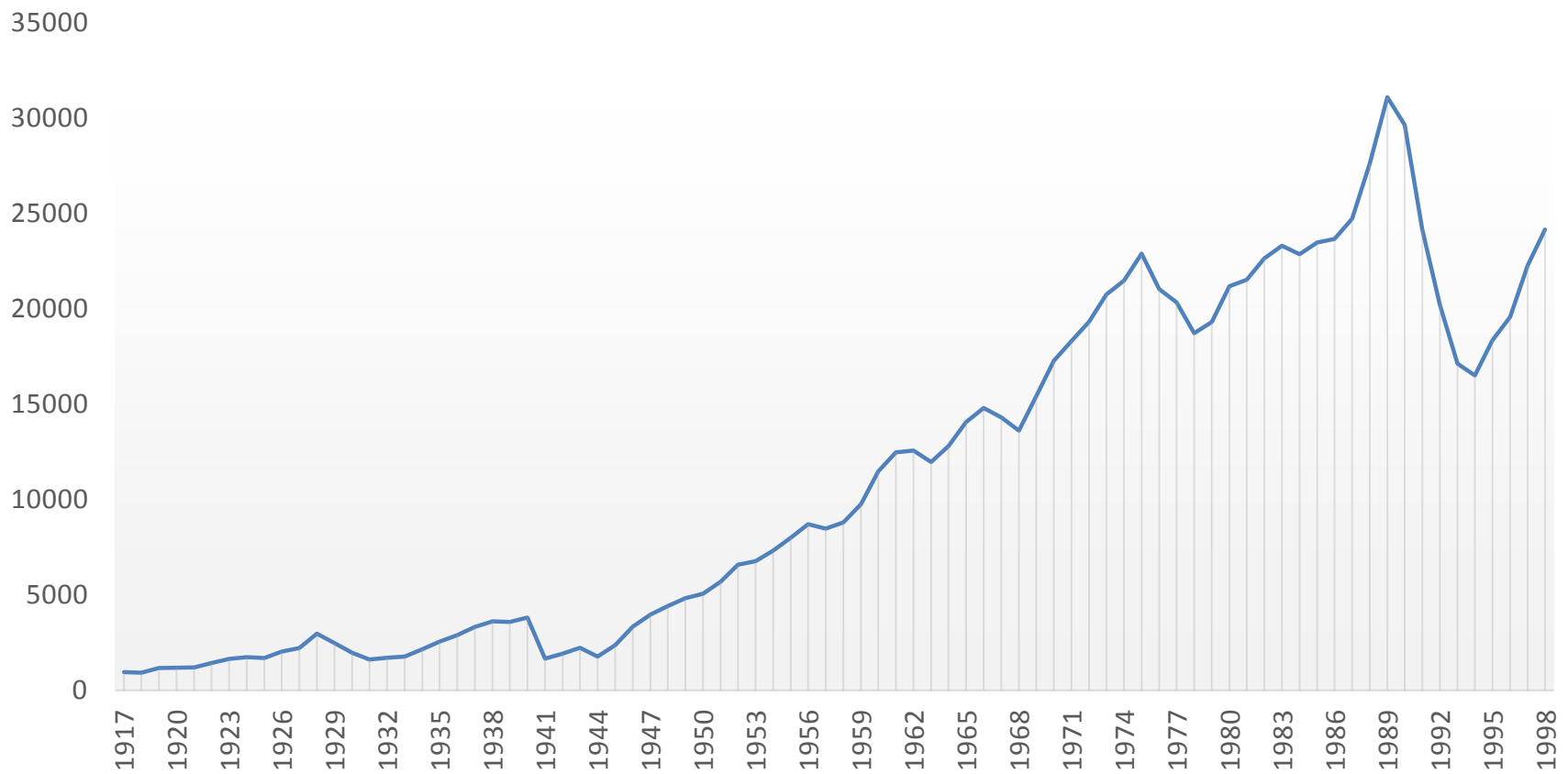
GDP per capita



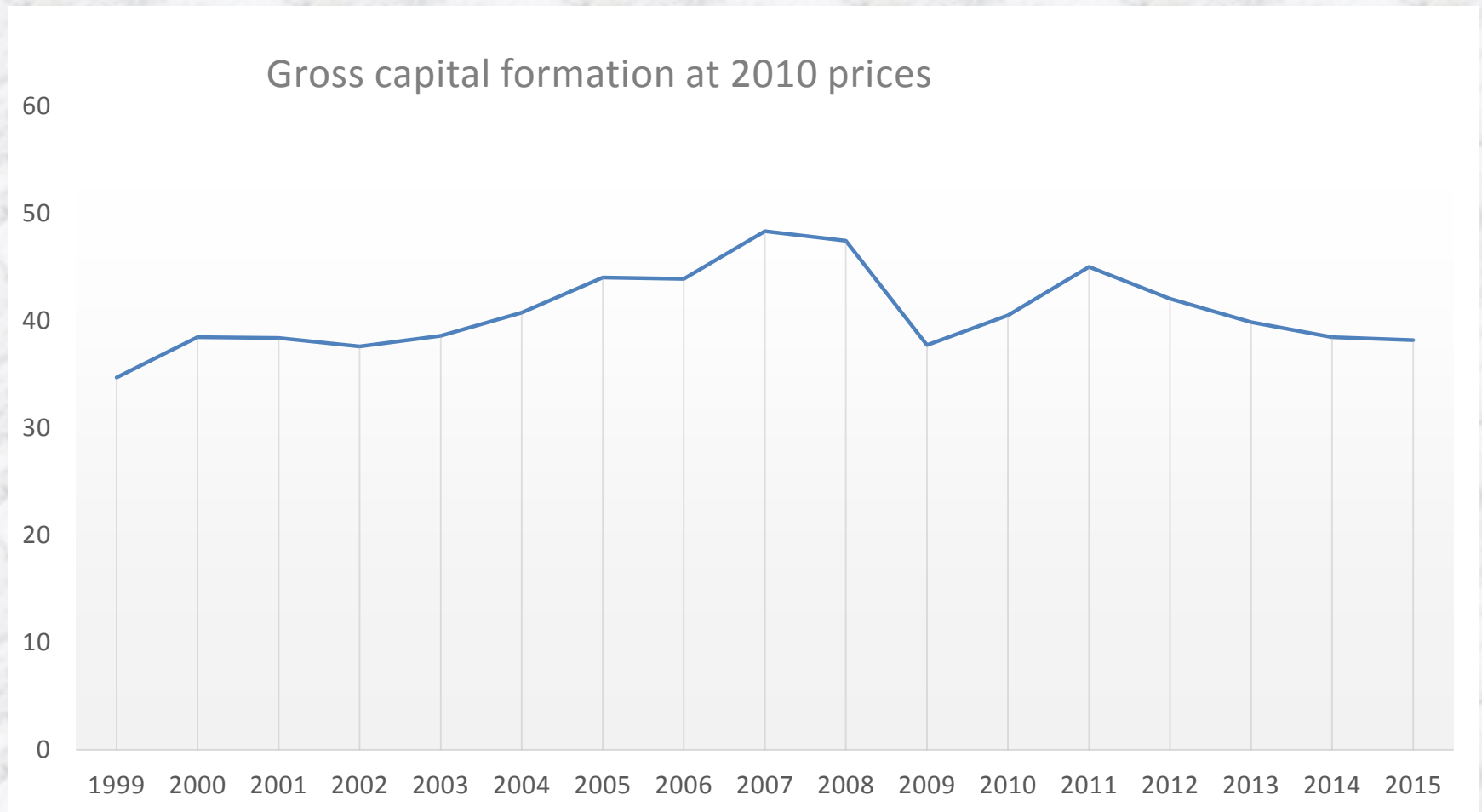
Source: Maddison database

Physical capital during monetary independence (millions €), 1917 - 1998

Investments

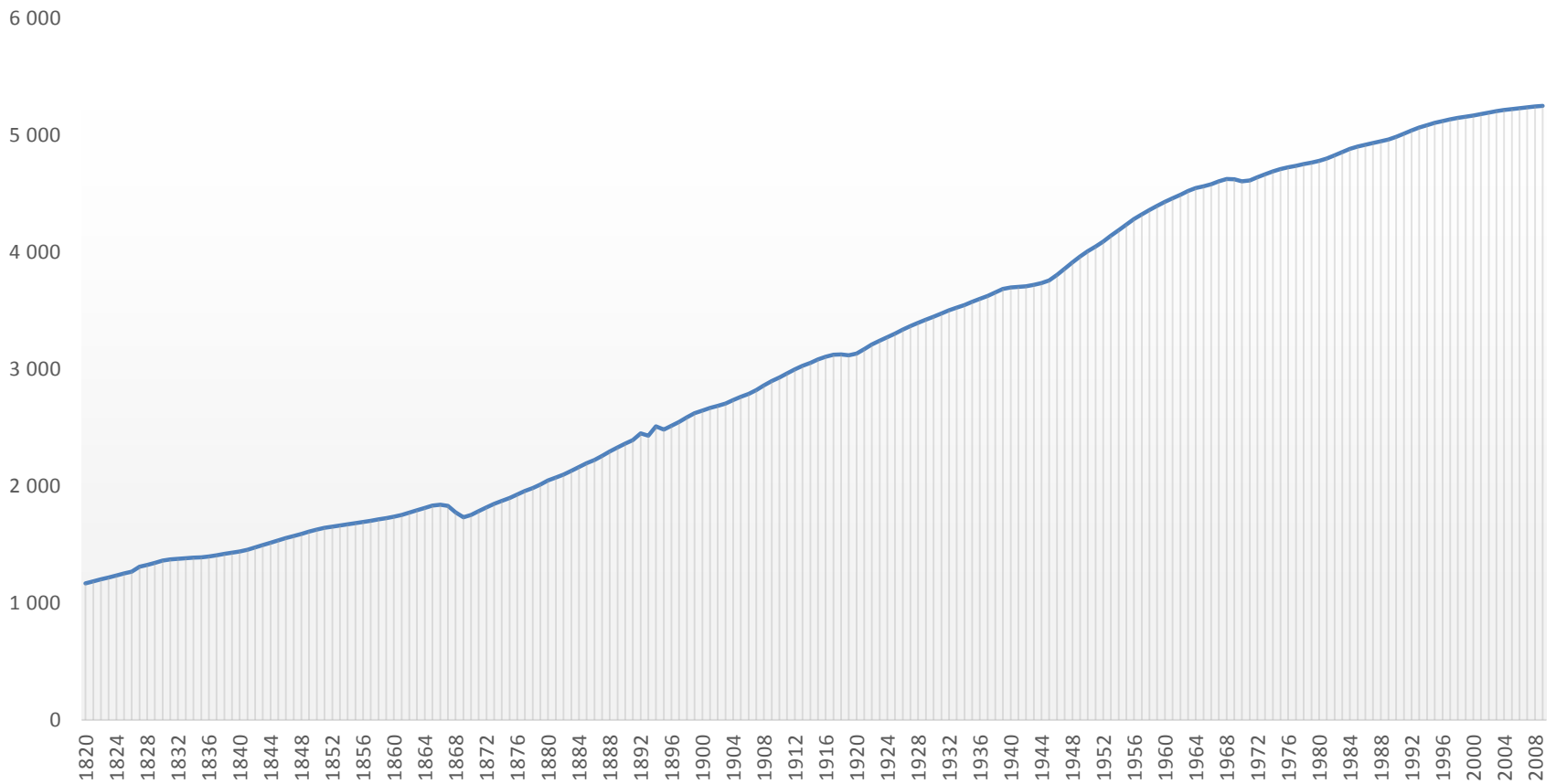


Physical capital during the euro (in mrd. €), 1999-2015

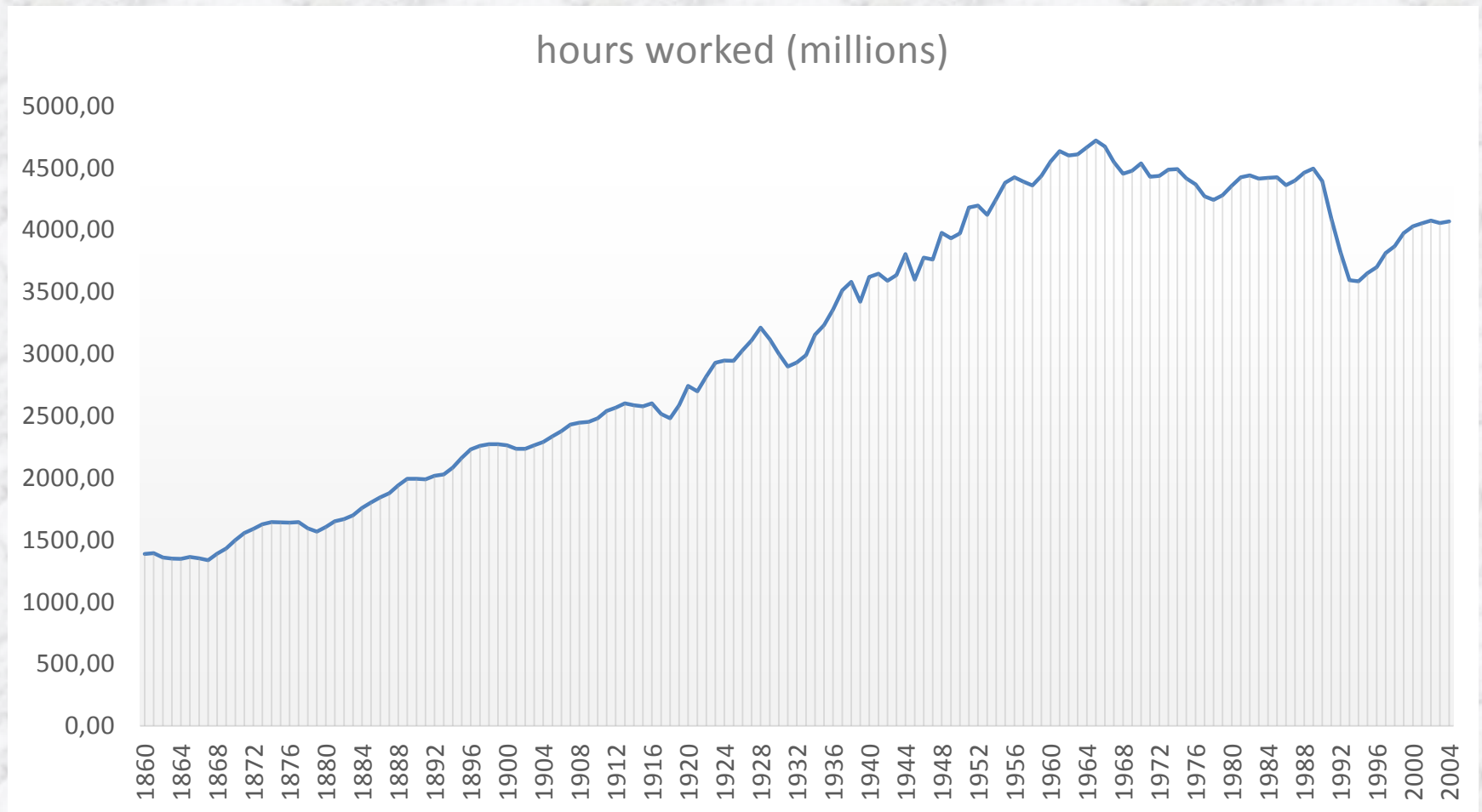


Population (thousands, mid-year), 1820-2009

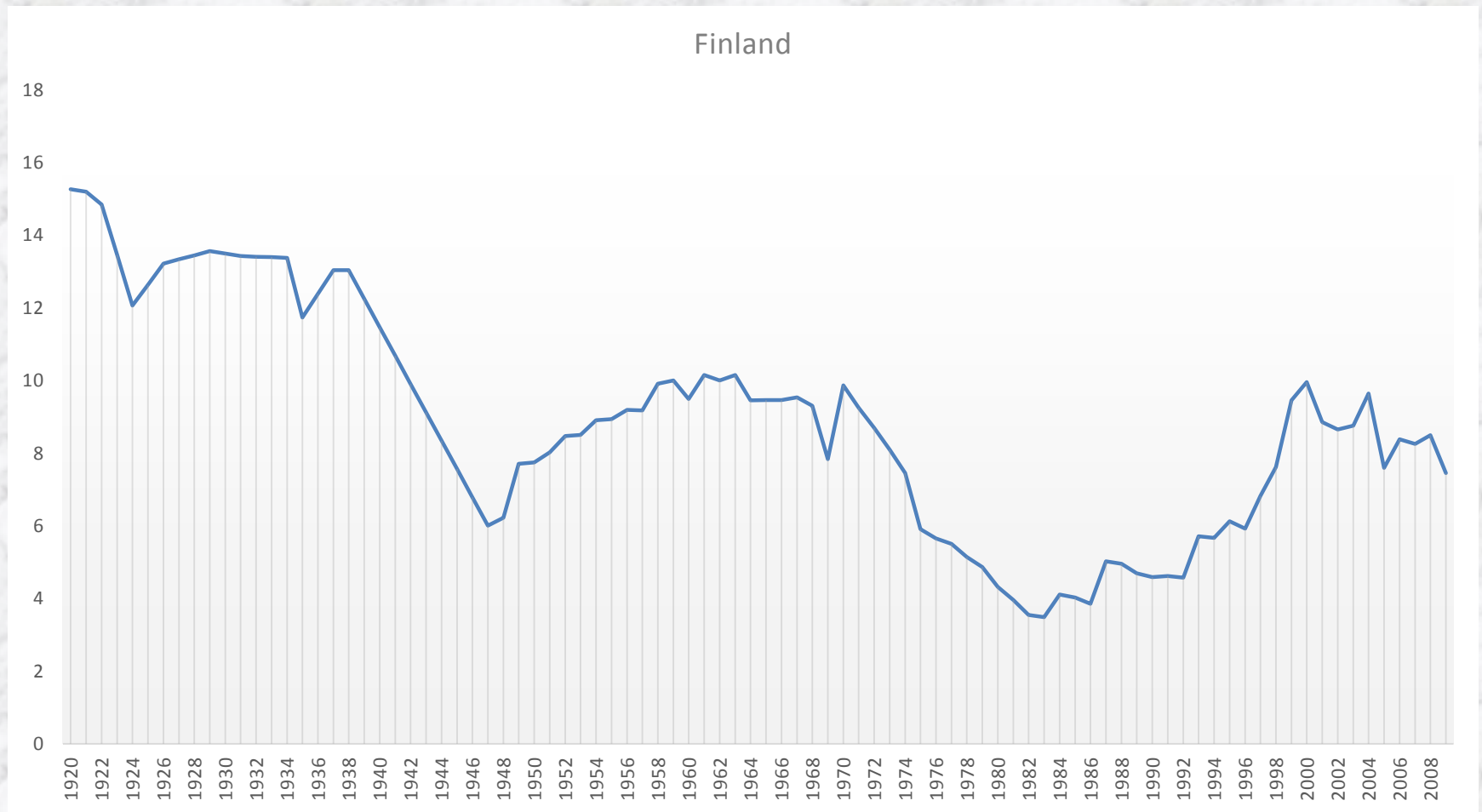
Finland



Employment in hours worked, 1860-2004

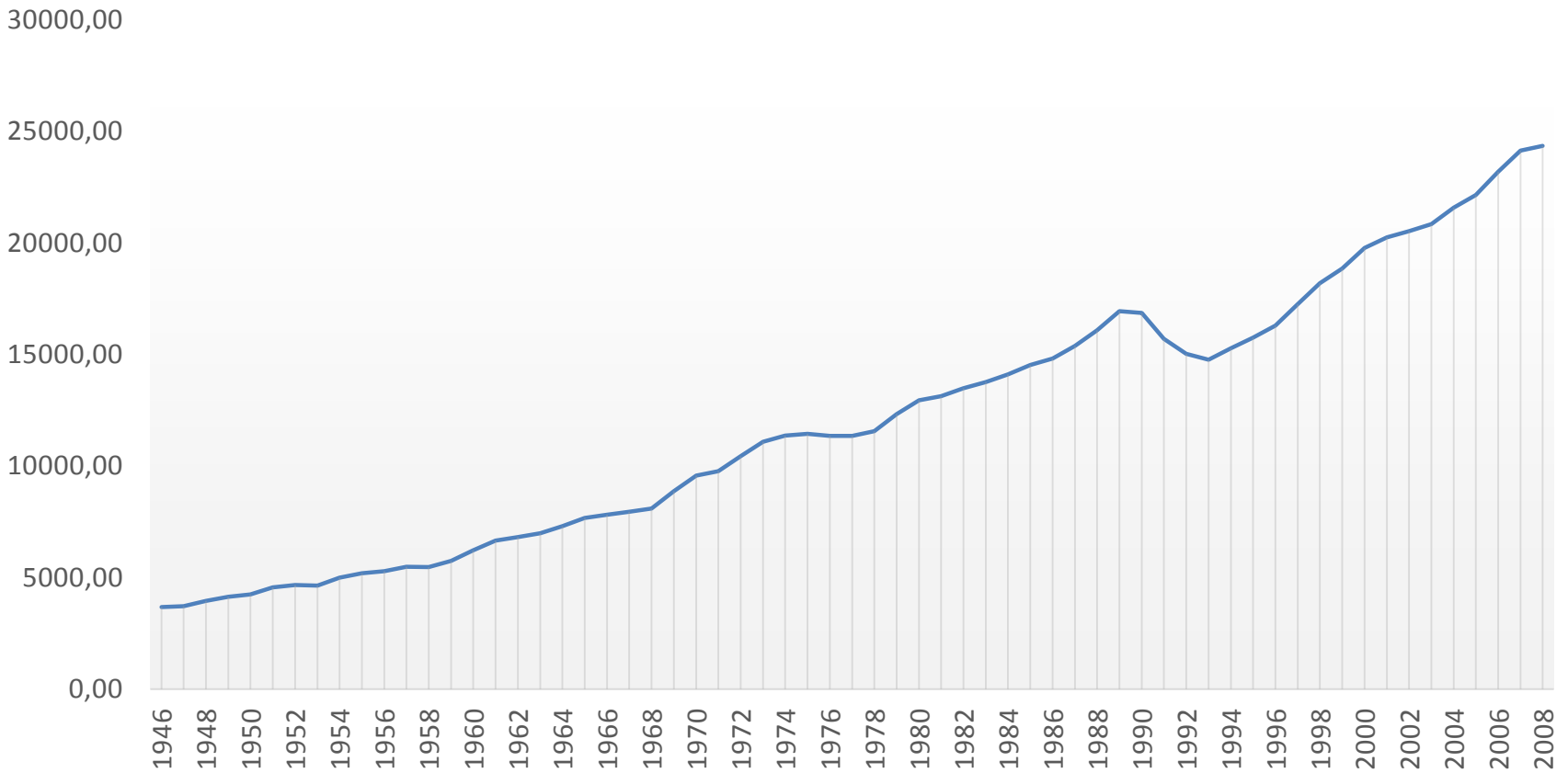


Share of total income going to the top 1 % of income earners, 1920-2009



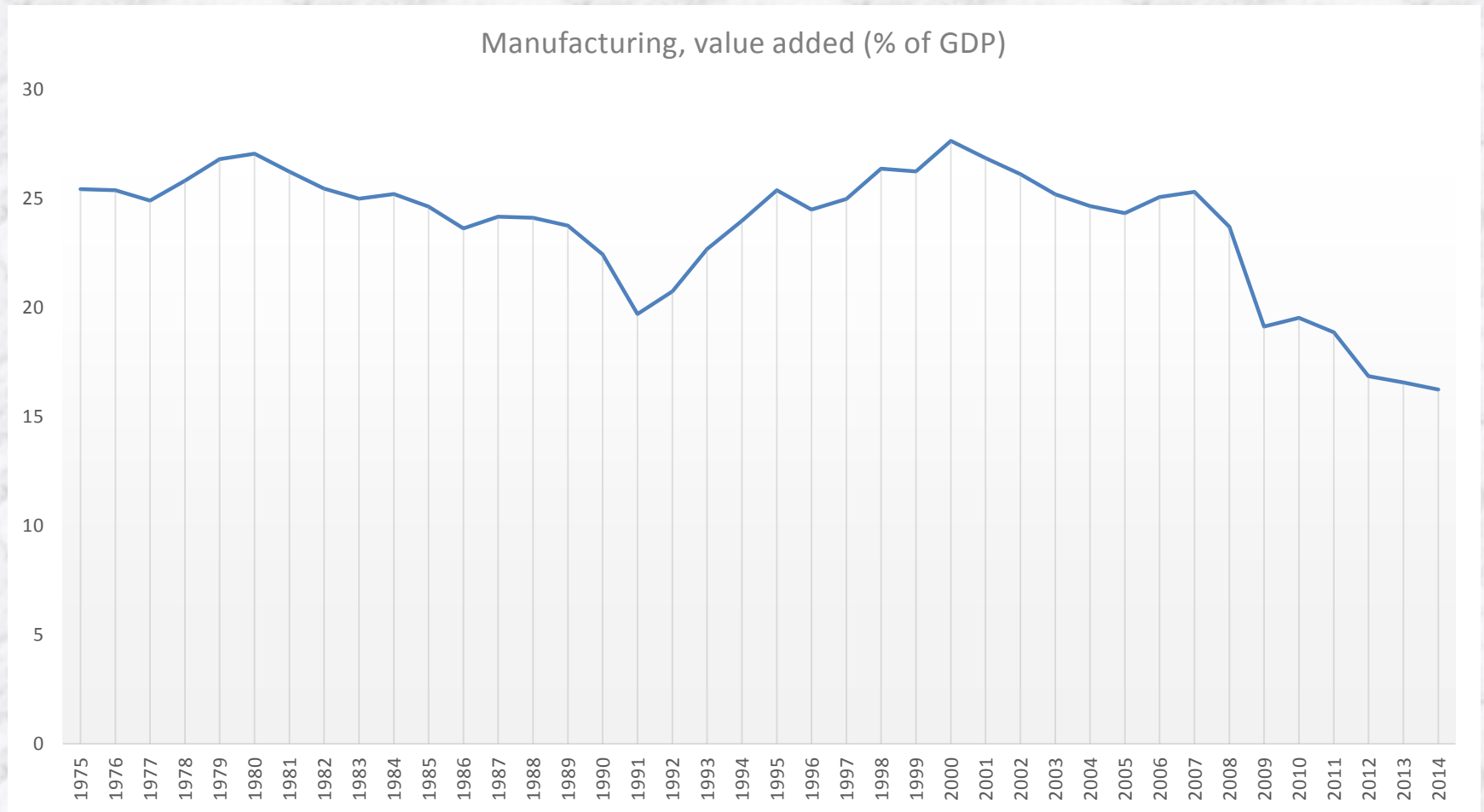
Economic development post WWII

GDP per capita



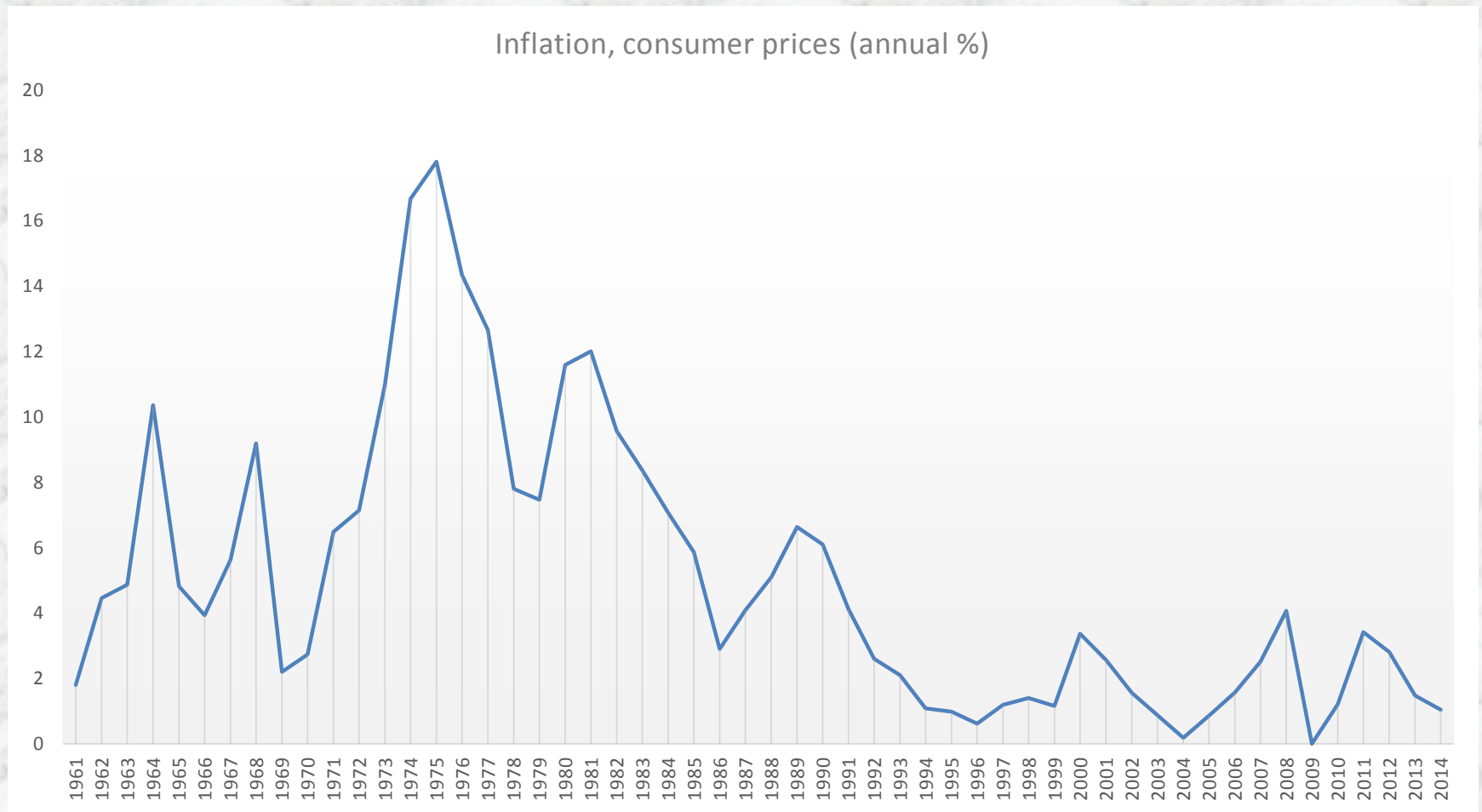
Source: Maddison
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Share of manufacturing of GDP, 1975-2014



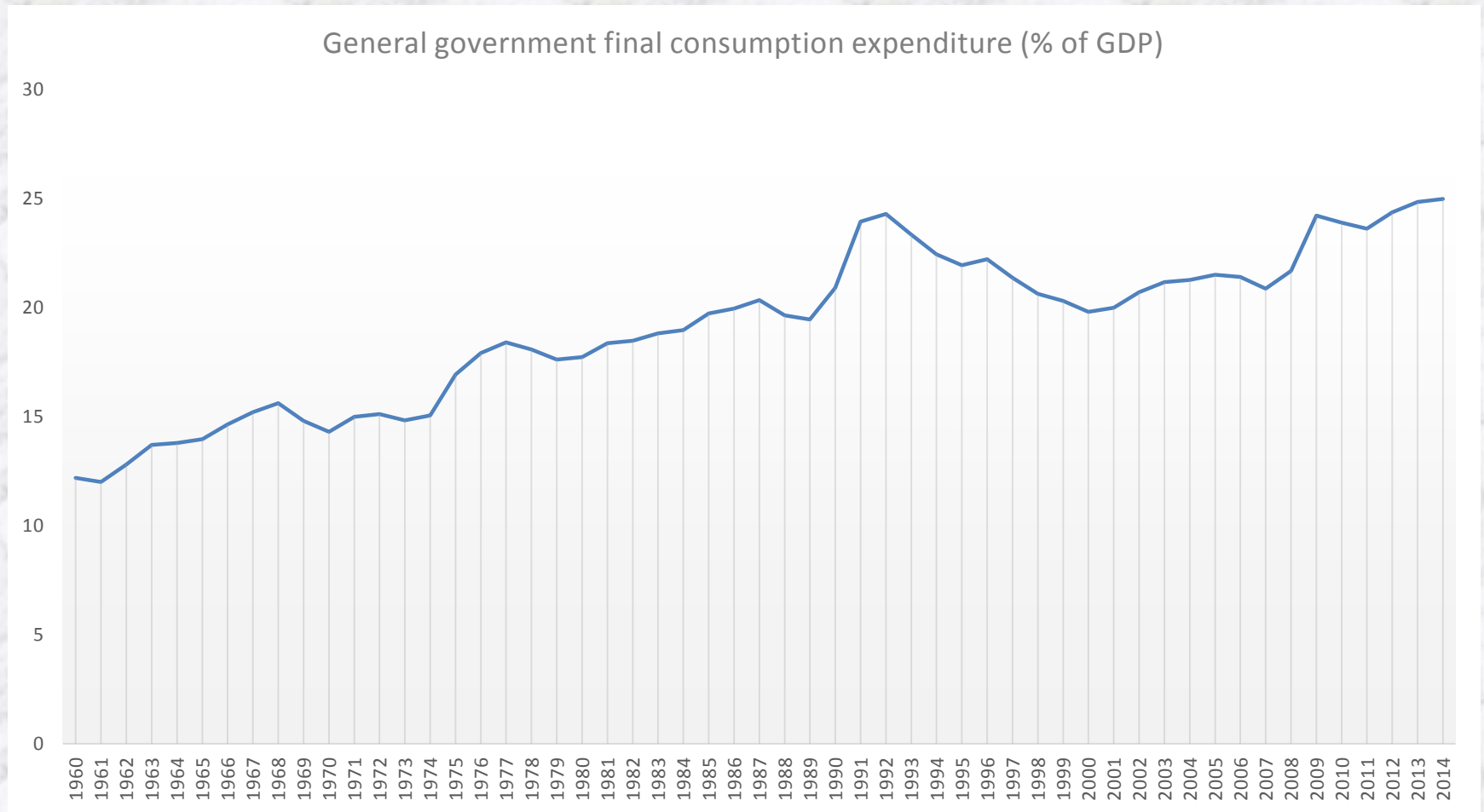
Source: World Bank

Inflation, 1961-2014



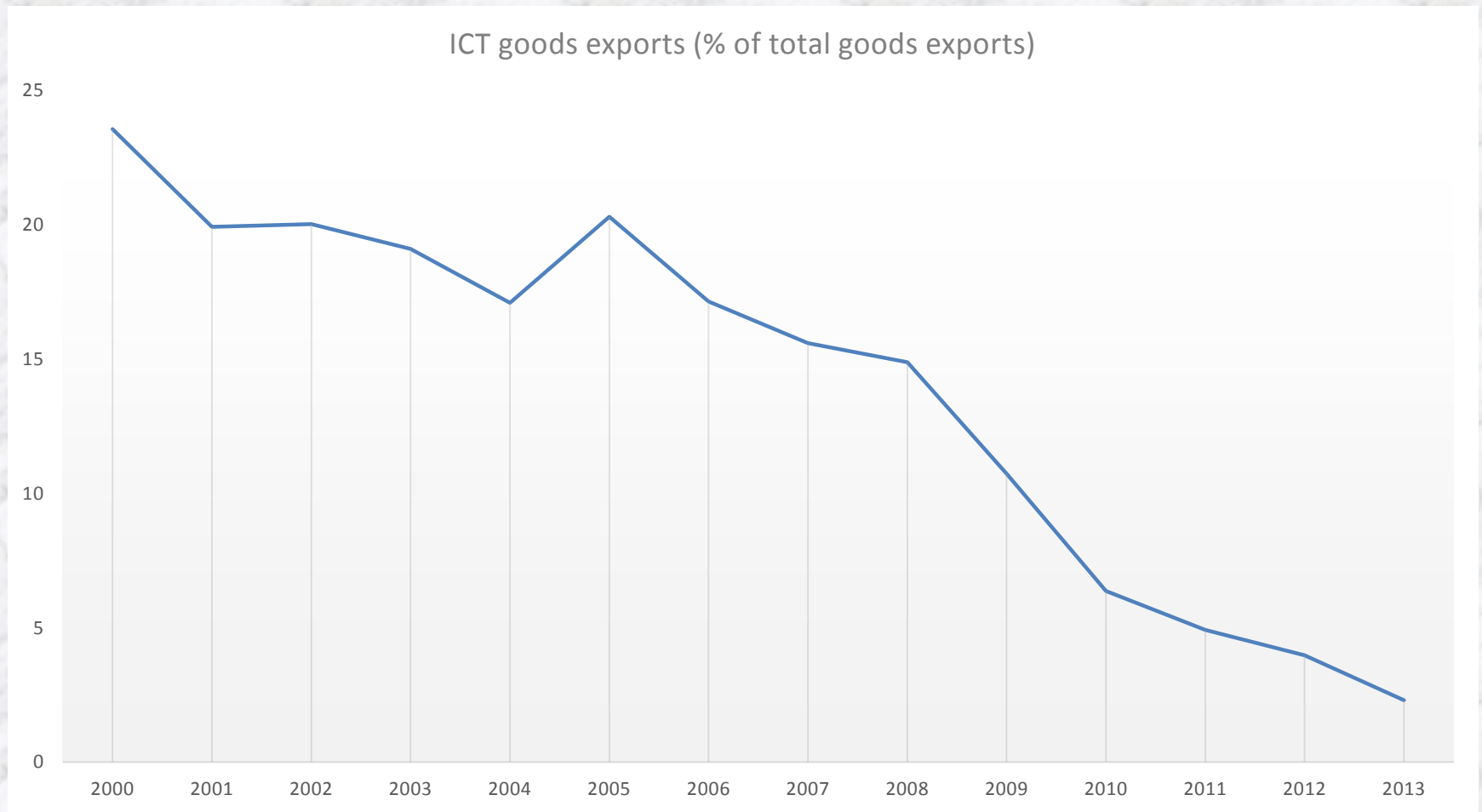
Source: World Bank

Costs of the welfare state, 1960-2014



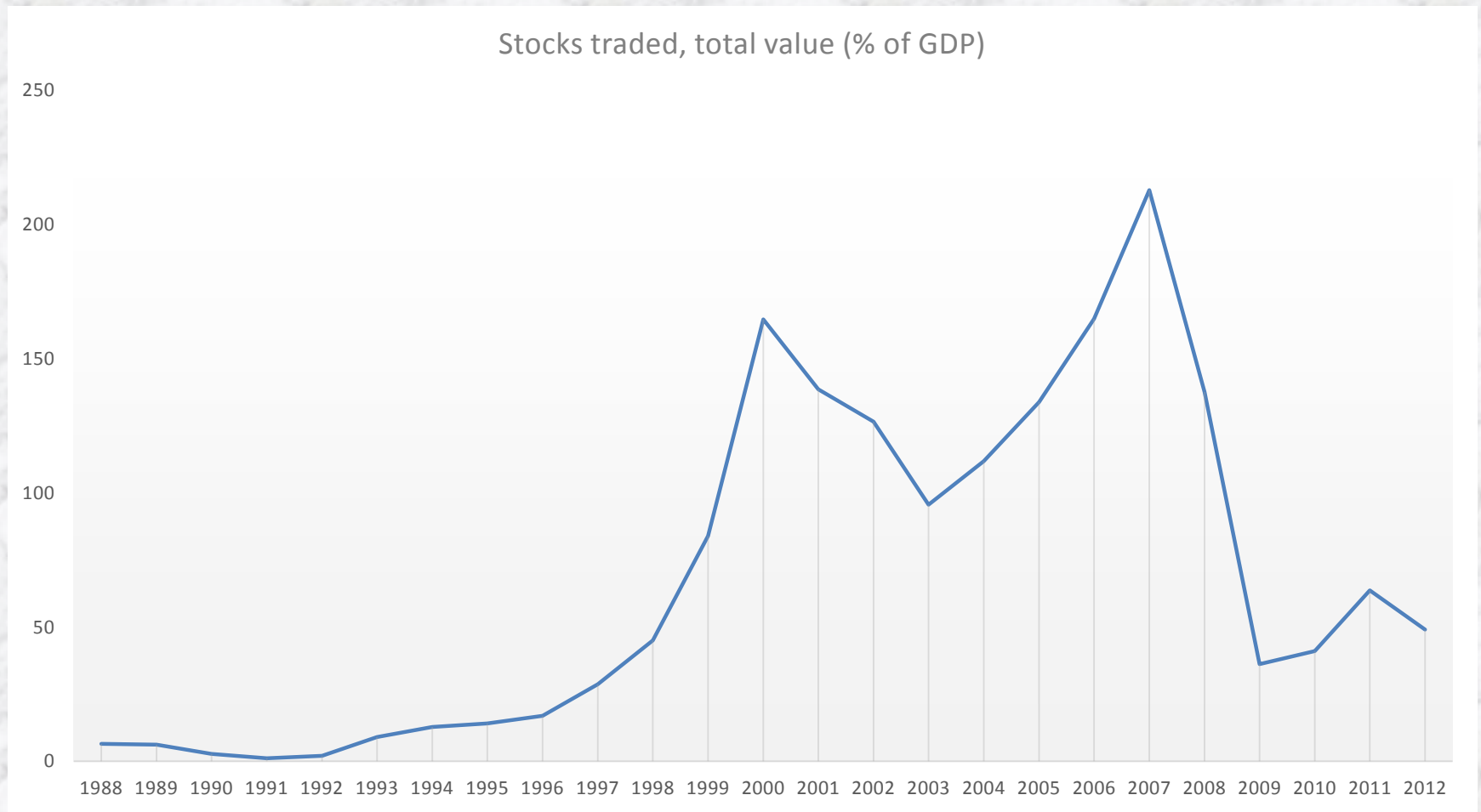
Source: World Bank

Fall of the Nokia Ltd.



Source: World Bank

Capital markets, 1988-2012



Source: World Bank

The Economic Development of Finland, course outline

- Course consists on 12 lectures from which four will be kept by the lecturer (me).
- My topics:
 1. Introduction to economic development in Finland
 2. First and second waves of industrialization
 3. The history of Finland's currency and monetary policy
 4. Financial crises of Finland

The Economic Development of Finland

– completion and grading

- Students are expected to form groups of two to three students (if there are no other participants in certain topic, 'solo' performance is also possible) and write and present an essay on a topic dealing with the economic development of Finland
 - Students can choose a topic from a predetermined list that can be found in Google calendar (address and password will be presented in the last slide)
 - Preliminary references for the topics is provided in the Google calendar.
- Essay should be 8 to 20 pages long
- Presentation should last 25 to 30 minutes followed by 15 to 20 minutes of discussion
- Grade for the course will consist on the essay (2/3) and on its presentation (1/3)

Topics:

1. Early development as a part of the Russian empire (1809-1859)
2. Economic development after the birth of markka (1860-1916)
3. Independence and civil war
4. Second World War and war reparations
5. Third wave of industrialization
6. Agriculture in Finland
7. Development of the schooling system
8. Development of the welfare state
9. Rise and fall of Nokia Ltd.
10. ICT bubble and its repercussion
11. The floating Markka
12. Finland and the euro
13. Migration in Finland
14. Rise and fall and re-rise of the forest industry
15. Business cycles of Finland
16. Recession of 2011-