

# Political Economy of Development

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Professor: Luz Marina Arias  
E-mail: [luz.arias@cide.edu](mailto:luz.arias@cide.edu)  
Office Hours: By appointment

This course provides an introduction to the emerging field of political economy of institutions and development. Research in economic history, political science and economics has shown that economic failures are typically correlated with other institutional, organizational, and political failures. That is, the regions that perform poorly in one dimension, also underperform in many dimensions of collective behavior. The purpose of the course is to introduce you to different methodological approaches and to the empirical evidence.

The major questions to be addressed by the course are: How central is politics to economic development? How do political institutions determine policy choices? How do economic structures in turn impact on politics? Why do governments employ policies that hinder development? What are the causes and consequences of corruption? Why do seemingly inefficient institutions survive? What is the role of history on current outcomes? Do culture and beliefs influence economic performance?

**Prerequisites:** Econometrics and Game Theory.

**Readings:** Students are required to read the articles or book chapters marked with two stars (\*\*) for each week. Readings not marked with stars are additional readings. Additional readings are not required, I include them as a guide to help you write your memo and organize your presentation. Some readings are marked with the letter (P); choose from those readings for your presentations.

**Group Presentations:** Presentations are intended to provide a summary of the articles: question, methodology, results. You should be prepared to present and defend the positive aspects of the article while being aware of the weaknesses. The other group will take a critical stance.

**Policy memos:** The students are required to write two policy memos (2-3 pages) on the readings (at least 3) of two different weeks of their choosing. A student cannot write a policy memo for the week that he or she is presenting. Students can discuss with other students the readings and write the memo based on the discussion, but each student must write his/her own memo. Each student must note in the memo who he/she worked with.

**Evaluation:** Each student will be evaluated on the basis of two in class presentations (30%), two written policy memos (30%), class participation (15%), and a final exam (25%). A minimum of 85% class attendance is required to take the final exam.

**Academic Integrity:** A fundamental tenet of all educational institutions is academic honesty; academic work depends upon respect for and acknowledgment of the work and ideas of others. Misrepresenting someone else's work as one's own is a serious offense in any academic setting and it will not be condoned.

## COURSE SCHEDULE

### Week 1. The Fundamental Problem in Political Economy

- \*\* Dixit, Avinash. 2006. *The Making of Economic Policy*. Princeton Univ Press, chpt. 1.
- Bowles, Samuel. 2004. *Microeconomics*. Princeton, Prologue.
- Helpman, Elhanan. 2004. *The Mystery of Economic Growth*. Harvard Univ Press, chpt. 1-2.
- Przeworski, Adam. 2003. *States and Markets*, Cambridge Univ Press, chpt. 1 and 2.
- Hirschman, Albert. 1977. *The Passion and the Interests: Political Arguments for Capitalism Before Its Triumph*, chpt. 1.

### Week 2. Causality and Evidence

- J.D. Angrist and J. Pishke. 2009. *Mostly Harmless Econometrics: An Empiricist's Companion*. Princeton University Press. Chapters 1-2.
- \*\* Milton Friedman. (1953) 1970. "The Methodology of Positive Economics," in *Essays In Positive Economics*. Univ. of Chicago Press, pp. 1-9, 19-27.
- \*\* Deaton, Angus. 2010. "Instruments, Randomization and Learning about Development." *Journal of Economic Literature*, 48(2): 424-55.

### Week 3. Does Political Economy Matter?

- \*\* Krugman, Paul. 1991. "History versus Expectations," *The Quarterly Journal of Economics* 106 (2): 651-667.
- Brenner, Robert. 1976. "Agrarian Class Structure and Economic Development in Pre-Industrial Europe," *Past and Present*, 70.
- P\*\* Jones, Benjamin F. and Olken, Benjamin A. 2005. "Do Leaders Matter? National Leadership and Growth Since World War II," *Quarterly Journal of Economics*, 120 (3), 835-864.
- Keefer, Phillip. 2004. "What does political economy tell us about economic development—and vice versa?" *Annual Review of Political Science*.

### Week 4. Historical Legacies

- \*\* Engerman, Stanley L. and Sokoloff, Kenneth L. 1997. "Factor Endowments, Institutions, and Differential Growth Paths among New World Economies" in *How Latin America Fell Behind*, Stephen Haber ed., Stanford: Stanford University Press.
- P\*\* Acemoglu, D., S. Johnson, and J. A. Robinson, 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91(5), 1369-1401.
- La Porta, Rafael, Lopez-de-Silanes, Florencio, Shleifer, Andrei, and Vishny, Robert W. 1998. "Law and Finance," *Journal of Political Economy*, 106, 1113-1155.
- P\*\* Banerjee, A. and L. Iyer. 2005. "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review*, 95:4.

## Week 5. Resources and Institutions

\*\* Acemoglu, Johnson, and Robinson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Economy" *Quarterly Journal of Economics* 1231-1296

**P\*\*** Mehlum, Karl M. and Ragnar Torvik. 2006. "Institutions and the Resource Curse," *Economic Journal*, 116:508.

Rodrik, Dani. 2003. "Institutions, Integration, and Geography: In Search of the Deep Determinants of Economic Growth," in *In Search of Prosperity: Analytic Narratives on Economic Growth*, Dani Rodrik, ed. Princeton University Press.

**P\*\*** Arias, L.M. and D. Girod. 2014. "Indigenous Origins of Colonial Institutions," *Quarterly Journal of Political Science*, Vol. 9, No. 3, pp. 371-406.

Van der Ploeg, F. 2011. "Natural Resources: Curse or Blessing?" *Journal of Economic Literature*, 49:2.

## Week 6. Social Conflict

Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*, Penn State Press. Chapters 1 and 3.

**P\*\*** Edward Miguel, Shanker Satyanath, Ernest Sergenti. 2004. "Economic shocks and civil conflict: An instrumental variables approach," *Journal of Political Economy*, 112 (4).

**P\*\*** Blatman, C., A. Hartman and R. Blair. 2014. "How to promote order and property rights under weak rule of law? An experiment in changing dispute resolution behavior through community education," *American Political Science Review* 108 (1): 100-120.

Bowles, Samuel. 2004. *Microeconomics*. Princeton, chapter 1.

Herbst, J. I. 2000. *States and Power in Africa: Comparative Lessons in Authority and Control*, Princeton University Press.

## Weeks 7. The Development of the State (or Endogenous Political Change)

Besley, Timothy and Torsten Persson. 2011. *Pillars of Prosperity*, chapter 1.

\*\* Besley, Tim, and Torsten Persson. 2009. "The Origins of State Capacity: Property Rights, Taxation, and Politics." *American Economic Review* 99(4): 1218-44.

**P\*\*** North, Douglas C., and Barry R. Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." *The Journal of Economic History* 49(4): 72-96.

\*\* Garfias, Francisco. 2016. "Elite Competition and State Capacity Development: Theory and Evidence from Mexico," Working Paper.

Tilly, Charles. 1985. "War Making and State Making as Organized Crime," in *Bringing the State Back In*, eds. P. Evans, D. Rueschemeyer, and T. Skocpol. Cambridge Univ Press.

Tilly, Charles. 1990. *Coercion, Capital and European States, AD 990-1990*, Blackwell.

## Week 8. Democracy and Autocracy

Olson, Mancur. 1993. "Dictatorship, Democracy and Development." *American Political Science Review* 87, 3.

\*\* Przeworski, Adam and Fernando Limongi. 1997. "Modernization: Theory and Facts." *World Politics*, 49: 155-84.

\*\* Gehlbach, S and P Keefer. 2012. "Private Investment and the Institutionalization of Collective Action in Autocracies: Ruling Parties and Legislatures," *Journal of Politics* 74: 2, 621-35.

P\*\* Dal Bó, Pedro, Andrew Foster, and Louis Puterman. 2010. "Institutions and Behavior: Experimental Evidence on the Effects of Democracy," *American Economic Review* 100, 2205-2229.

Przeworski, Adam. 2005. "Democracy as an Equilibrium." *Public Choice* 123: 253-273.

## Week 9. Inequality and Democracy

\*\* Helpman, Elhanan. 2004. *The Mystery of Economic Growth*. Harvard Univ Press. Chapt. 6.

P\*\* John Ahlquist and Erik Wibbles. 2012. "Inequality, Factor Prices and Political Regimes." *American Journal of Political Science*.

P D Acemoglu and J Robinson, 2000. "Why Did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective," *Quarterly Journal of Econ* 115: 1167-1199.

Acemoglu, D. and J. Robinson. 2006. *Economic Origins of Democracy and Dictatorship* (c. 1-3).

## Week 10. Inequality

P\*\* Alesina, A., Stelios Michalopoulos, and Elias Papaioannou. 2016. "Ethnic Inequality." *Journal of Political Economy* 124, 2.

\*\* Persson, Torsten and Guido Tabellini. 1994. "Is Inequality Harmful for Growth?" *American Economic Review*, 84: 600-621.

P Levy, G. 2005. "The politics of public provision of education" *Quarterly Journal of Economics*, 120 (4) 1507-1534.

Rogowski, R. and Duncan MacRae. 2008 "Inequality and Institutions: What Theory, History, and (some) Data Tell us." In Beramendi and Anderson (eds.) *Democracy, Inequality and Representation*. Russell Sage Foundation, NY.

Bénabou, Roland. 1996. "Inequality and Growth." *NBER Macro-Economics Annual*: 11-74.

## Week 11. Political Decision Making

Anthony Downs. 1957. *An Economic Theory of Democracy*. New York: Harper Collins (4 & 8).

**P** Banerjee, Abhijit, Selvan Kumar, Rohini Pande, and Felix Su, "Do Informed Voters Make Better Choices? Experimental Evidence from Urban India," mimeo, Harvard.

**P\*\*** Alberto Chong, Ana De La O, Dean Karlan, and Leonard Wantchekon, 2011. "Looking Beyond the Incumbent: The Effects of Exposing Corruption on Electoral Outcomes," NBER WP 17679.

Dal Bó, Pedro, Ernesto Dal Bó, and Erik Eyster. 2013. "The Demand for Bad Policy When Voters under appreciate Equilibrium Effects." Working Paper.

Murillo, Victoria. 2000. "From Populism to Neoliberalism: Labor Unions and Market Reforms in Latin America", *World Politics*. 52(2).

Olson, Mancur. 1965. *The Logic of Collective Action*. Harvard University Press.

## Week 12. Rent Seeking

\*\* A. Przeworski. *States and Markets*, ch. 6.

**P\*\*** Dixit, Avinash and John Londegran. 1996. "The Determinants of Success of Special Interests in Redistributive Politics." *Journal of Politics*, Vol. 58, pp. 1132-1155.

Kreuger, Anne O. 1974. "The Political Economy of the Rent-Seeking Society," *American Economic Review*, 291-303.

Shleifer, A. and Vishny, R. 1994. "Politicians and Firms," *Quarterly Journal of Economics*, 109(4), 995-1025.

**P** Grossman, Gene M., and Elhanan Helpman. 1994. "Protection for Sale." *AER* 84, 833-850.

Dewatripont, M. and J. Tirole. 1999. "Advocates," *J of Political Economy*, 109(4), 995-1025.

## Week 13. Governance Failures

\*\* Shleifer, A. and R. Vishny. 1993. "Corruption," *Quarterly Journal of Econ*, 108 (3) 599-617.

**P** Olken, Benjamin and Patrick Barron. 2009. "The Simple Economics of Extortion: Evidence from Trucking in Ace", *Journal of Political Economy* 117 (3), pp 417-452.

Bertrand, Marianne, Simeon Djankov, Rema Hanna, and Sendhil Mullainathan. 2007. "Obtaining a Driver's License in India: An Experimental Approach to Studying Corruption," *Quarterly Journal of Economics*, Vol 122 (4) 1639-1676.

Adsera, A., C. Boix, and M. Payne. 2003. "Are You being Served? Political Accountability and Quality of Government." *Journal of Law and Economic Organization* 19 (2): 445-90.

Morris, S. D. and J. L. Klesner. 2010. "Corruption and Trust: Theoretical Considerations and Evidence From Mexico," *Comparative Political Studies* XX(X), pp. 1-28.

A. Banerjee. 1997. "A Theory of Misgovernance" *Quarterly Journal of Econ*, 112, 1289-1332.

## Week 14. Beliefs and Culture

\*\* Bowles, S. (1998) "Endogenous Preferences: The Cultural Consequences of Markets and other Economic Institutions," *Journal of Economic Literature*, 36, March.

P\*\* Rafael Di Tella, S. Galiani and E. Schargrodsy. 2007. "The Formation of Beliefs: Evidence from the Allocation of Land Titles to Squatters," *Quarterly Journal of Economics*, 122(1).

Tabellini, Guido (2008) "The Scope of Cooperation: Values and Incentives," *Quarterly Journal of Economics*, 123, 905-950.

P Greif, A. 1994. "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies," *Journal of Political Economy*, 102(5).

P Tabellini, Guido (2010) "Culture and Institutions: Economic Development in the Regions of Europe." *Journal of European Economic Association*, 8, 677-716.

Guiso, Luigi, Paola Sapienza and Luigi Zingales (2006) "Does Culture Affect Economic Outcomes?" *Journal of Economic Perspectives*, 20, 23-48.

Kosfeld, Michael, Markus Heinrichs, Paul J. Zak, Fischbacher and Ernst Fehr. 2005. "Oxytocin Increases Trust in Humans," *Nature*, 435 (2): 673-676.

## Week 15. Dynamics: Institutional Change and Persistence

Acemoglu, Daron and Robinson, James A. 2008. "Persistence of Power, Elites and Institutions," *American Economic Review*.

\*\* Spolaore, E. and R. Wacziarg (2013), "How Deep are the Roots of Economic Development?," *Journal of Economic Literature* 51(2).

P Bleakley, Hoyt and Jeffrey Lin (2012), "Portage and Path Dependence," *The Quarterly Journal of Economics* 127 (2): 587-644.

Bowles, Samuel. 2004. *Microeconomics*. Princeton, chapter 12.

Page, Scott E. 2006. "Path Dependence." *Quarterly Journal of Political Science* 1: 87-115.

Arthur, W. Brian. 1989. "Competing Technologies, Increasing Returns and Lock-In by Historical Events," *Economic Journal*, 1989, 99(1), pp. 106-131.

Ashraf, Quamrul and Oded Galor. 2010. "The Out of Africa Hypothesis, Genetic Diversity and Comparative Development," *American Economic Review*.

Davis, Donald and David Weinstein. 2002. "Bones, Bombs, and Break Points: The Geography of Economic Activity," *American Economic Review*, 92 (5): 1269-1289