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Summer term 2017

The Political Economy of Development

Lecture:

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Exercise:

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I. Contents

The new political economy and the public choice school contribute to our understanding of not only economic policy, but also long-run economic development. This course takes up a number of topics in development economics in which political economy can provide either another angle or new insights into old issues.

II. Date and Time

Lecture: May 30, June 8, 13, 20, 22, 27, 29, July 4, 6, 11, 13, 18, 20
Tuesday (starting May, 30): 4pm-6pm, AWI room 02.036
Thursday (starting June, 8): 10am-12pm, AWI room 01.030

Tutorial: May 31, June 9, 14, 16, 21, 23, July, 5, 7, 12, 19, 21, 26, 28
Wednesday (starting May, 31): 2pm-4pm, AWI room 02.036
Friday (starting June, 9): 10am-12pm, AWI room 00.010

III. Note

Teaching will be in English.

Make sure to read all papers before the corresponding lecture/tutorial and to work through the problem sets for each tutorial. The readings consist of a series of papers, published in international journals. The aim of the tutorial is to go through the problem sets together. In addition, there will be student presentations with follow-up questions and discussion.

Plans will be made at the first lecture regarding the referee reports.

IV. Grading

- 90-minute exam at the end of the term (70%)
- 4-5 page referee report (20%): deadline **August, 15th** (one deadline for all, irrespective of whether students write the first/second exam)
- Presentation in tutorial (10%)

V. Preliminary Lecture Plan

1. Introduction and development measurement (May 30)
Introduction to main problems, topics and data sources
Data sources, Cahill (2005)

Part 1 Main problems of development

2. Long-run growth – Acemoglu and the critics (June 8)
Acemoglu and Robinson (2006), Albouy (2012)
3. Geography matters (June 13)
Przeworski (2004), Nunn and Puga (2012)
4. Ideas matter (June 20)
Mokyr (2005), Denzau and North (1994)

Part 2 Institutional problems

5. Developing democracy? (June 22)
Aidt and Jensen (2009), Lipset (1959)
6. Property rights (June 27)
Demsetz (1967), North and Weingast (1989)
7. Culture and trust (June 29)
Knack and Keefer (1997), Nunn and Wantchekon (2011)

Part 3 The political economy of natural resources and foreign aid

8. Natural resources (July 4)
Collier and Hoeffler (1998), Tornell and Lane (1999)
9. Effects and side effects of aid (July 6)
Doucoulagos and Paldam (2009), Knack (2004), Werker et al. (2009)
10. Disbursing aid (July 11)
Dreher et al. (2008), Brech and Potrafke (2014)

Part 4 Specific problems

11. Trade policy (July 13)
Hillman (1982), Grossman and Helpman (1994)
12. Corruption (July 18)
Dreher, Kotsogiannis and McCorriston (2009), Bjørnskov (2011)
13. Students' topic (July 20)
Schneider and Enste (2000), Skaperdas (2001)

VI. Preliminary Tutorial Plan

Requirements:

- Students are expected to do all required readings and to participate in the sessions.
- Problem sets will strengthen the understanding of the topics discussed in the lecture.
- In the tutorial sessions, there will be student presentations (10% of final grade). Each student (or a group of two students) will be responsible for a 20 minutes' presentation and following Q&A and discussions. The presentation should not simply summarize the paper. Instead, it should highlight strengths and weaknesses of the paper and provide suggestions for extensions and potential future research. Please relate your paper to the articles discussed in the lecture.
- Students are expected to write a referee report (about 4-5 pages) on the paper presented (20 percent of final grade).

Tutorial Plan:

1. Presentation of course outline (May 31)
Assignment of papers for student presentations and referee reports
Interpreting regression outputs
2. How to write a referee report and how to give a short presentation on the paper (June 9)
3. Presentation 1 and Problem Set 1 (June 14)
Part 1 Main problems of development: Long-run growth
Acemoglu, Daron, Simon Johnson and James A. Robinson. 2001. The Colonial Origins of Comparative Development: An Empirical Investigation. American Economic Review vol. 91: 1369-1401.
4. Presentation 2 and Problem Set 2 (June 16)
Main problems of development: Geography
Dalgaard, Carl-Johan and Anne S. B. Knudsen and Pablo Selaya. 2015. The Bounty of the Sea and Long-Run Development. CESifo Working Paper Series No. 5547.
5. Presentation 3 and Problem Set 3 (June 21)
Part 2 Institutional problems: Democracy
Acemoglu, Daron, Suresh Naidu, Pascual Restrepo and James A. Robinson. 2014. Democracy Does Cause Growth. NBER Working Papers 20004.
6. Presentation 4 and Problem Set 4 (June 23)
Part 2 Institutional problems: Culture and trust
Zak, Paul J. and Stephen Knack. 2001. Trust and Growth. Economic Journal vol. 11 (470): 295-321.

7. Presentation 5 and Problem Set 5 (July 5)
Part 3 The political economy of natural resources and foreign aid: Natural resources
Angrist, Joshua D. and Adriana D. Kugler. 2008. Rural Windfall or a New Resource Curse? Cocoa, Income, and Civil Conflict in Colombia. Review of Economics and Statistics vol. 90 (2): 191-215.

8. Presentation 6 and 7 (July 7)
Part 3 The political economy of natural resources and foreign aid: Effects and side effects of aid
Nunn, Nathan and Nancy Qian. 2014. U.S. Food Aid and Civil Conflict. American Economic Review vol. 103 (3): 86-92.

Part 3 The political economy of natural resources and foreign aid: Disbursing aid
Dreher, Axel, Andreas Fuchs, Roland Hodler, Bradley C. Parks, Paul A. Raschky and Michael J. Tierney. 2016. Aid on Demand: African Leaders and the Geography of China's Foreign Assistance. AidData Working Paper No. 3.

9. Presentation 8 and Problem Set 6 (July 12)
Part 4 Specific problems: Social capital
Tabellini, Guido. 2010. Culture and Institutions: Economic Development in the Regions of Europe. Journal of the European Economic Association vol. 8 (4): 677-716.

10. Presentation 9 and Problem Set 7 (July 19)
Part 4 Specific problems: Trade policy
Berman, Nicolas and Mathieu Couttenier. 2015. External Shocks, Internal Shots: The Geography of Civil Conflict. Review of Economics and Statistics vol. 97 (4): 758-776.

11. Presentation 10 and 11 (July 21)
Part 4 Specific problems: Entrepreneurship
Bjørnskov, Christian and Nicolai J. Foss. 2008. Economic Freedom and Entrepreneurial Activity: Some Cross-Country Evidence. Public Choice vol. 134: 307-328.

Part 4 Specific problems: Corruption
Bologna, Jamie and Amanda Ross. 2015. Corruption and Entrepreneurship: Evidence From Brazilian Municipalities. Public Choice vol. 165: 59-77.

12. Presentation 12 (Problem Set 8) on student's topic (July 26)
Part 4 Specific problems: Illicit Economy
Lind, Jo Thori, Karl ve Moene and Frederik Willumsen. 2014. Opium for the Masses? Conflict-Induced Narcotics Production in Afghanistan. The Review of Economics and Statistics vol. 96(5): 949-966.

13. Exam preparation, Question hour (July 28)

VII. Literature list for lecture

- Acemoglu, Daron and James A. Robinson. 2006. Economic Backwardness in Political Perspective. *American Political Science Review* vol. 100: 115-131.
- Aidt, Toke and Peter S. Jensen. 2009. The Taxman Tools Up: An Event History Study of the Introduction of the Personal Income Tax, 1815-1938. *Journal of Public Economics* vol. 93: 160-175.
- Albouy, David. 2012. The Colonial Origins of Comparative Development: An Empirical Investigation: Comment. *American Economic Review* vol. 102: 3059-3076.
- Bjørnskov, Christian. 2011. Combatting Corruption. *Journal of Law and Economics* vol. 54: 135-159.
- Brech, Viktor and Niklas Potrafke. 2014. Donor Ideology and Types of Foreign Aid. *Journal of Comparative Economics* vol. 42: 61-75.
- Cahill, Miles. 2005. Is the Human Development Index Redundant? *Eastern Economic Journal* vol. 31: 1-5.
- Collier, Paul and Anke Hoeffler. 1998. On Economic Causes of Civil War. *Oxford Economic Papers* vol. 50: 563-573.
- Demsetz, Harold. 1967. Towards a Theory of Property Rights. *American Economic Review* vol. 57: 347-359.
- Denzau, Arthur T. and Douglass C. North. 1994. Shared Mental Models: Ideologies and Institutions. *Kyklos* vol. 47: 3-31.
- Doucouliafos, Hristos and Martin Paldam. 2009. The Aid Effectiveness Literature: The Sad Results of 40 Years of Research. *Journal of Economic Surveys* vol. 23: 433-461.
- Dreher, Axel, Christos Kotsogiannis and Steve McCorriston, 2009, How do Institutions Affect Corruption and the Shadow Economy? *International Tax and Public Finance* vol. 16: 773-796.
- Dreher, Axel, Peter Nunnenkamp and Rainer Thiele. 2008. Does US aid buy UN General Assembly votes? A Disaggregated Analysis. *Public Choice* vol. 136: 139-164.
- Grossman, Gene M. and Elhanan Helpman. 1994. Protection for Sale. *American Economic Review* vol. 84: 833-850.
- Hillman, Arye. 1982. Declining industries and political-support protectionist motives. *American Economic Review* vol. 72: 1180-1187.
- Knack, Stephen. 2004. Does Foreign Aid Promote Democracy? *International Studies Quarterly* vol. 48: 251-266.
- Knack, Stephen and Philipp Keefer. 1997. Does Social Capital Have an Economic Payoff? A Cross-Country Investigation. *Quarterly Journal of Economics* vol. 112: 1251-1288.
- Lipset, Seymour Martin. 1959. Some Social Requisites of Democracy: Economic Development and Political Legitimacy, *American Political Science Review* vol. 53: 69-105.
- Mokyr, Joel. 2005. Long-term Economic Growth and the History of Technology. In the *Handbook of Economic Growth*, edited by Philippe Aghion and Steven Durlauf, Amsterdam: Elsevier, 1113-1180.
- North, Douglass C. and Barry R. Weingast. 1989. Constitutions and commitment: The evolution of institutions governing public choice in seventeenth-century England. *Journal of Economic History* vol. 49: 803-832.
- Nunn, Nathan and Leonard Wantchekon. 2011. The Slave Trade and the Origins of Mistrust in Africa. *American Economic Review* vol. 101: 3221-3252.
- Nunn, Nathan and Diego Puga. 2012. Ruggedness: The Blessing of Bad Geography in Africa. *Review of Economics and Statistics* vol. 94 (1): 20-36.
- Przeworski, Adam. 2004. Geography vs. Institutions Revisited: Were Fortunes Reversed? [Working paper](#), New York University.
- Schneider, Friedrich and Dominik Enste. 2000. Shadow Economies: Size, Causes, and Consequences. *Journal of Economic Literature* vol. XXXVIII: 77-114
- Skaperdas, Stergios. 2001. The political economy of organized crime: providing protection when the state does not. *Econ. Gov.* 2: 173-202

Tornell, Aaron and Philip R. Lane. 1999. The Voracity Effect. *American Economic Review* vol. 89: 22-46.

Werker, Eric D., Faisal Z. Ahmed and Charles Cohen. 2009. How is Foreign Aid Spent? Evidence from a Natural Experiment. *American Economic Journal: Macroeconomics* vol. 1 (2): 225-244.