



Heidelberg, August 09, 2018

### Winter term 2018

## The Political Economy of Development

#### Lecture:

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#### Tutorial:

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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:

Tuesday: 11am-1pm, AWI 01.030

Thursday: 4pm-6pm, AWI 01.030

#### Tutorial:

Monday: 4pm-6pm, AWI 00.010

Wednesday: 2pm-4pm, AWI 02.036

	Mo	Tu	We	Th	Fr
<b>November</b>	26	27	28	29	30
				L1	
<b>December</b>	3	4	5	6	7
	T1	L2	T2	L3	
	10	11	12	13	14
	T3	L4	T4	L5	
	17	18	19	20	21
		L6	T5		
<b>January</b>	7	8	9	10	11
		L7	T6	L8	
	14	15	16	17	18
	T7	L9	T8	L10	
	21	22	23	24	25
	T9	L11	T10	L12	
	28	29	30	31	1
	T11	L13	T12	T13	

### 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.

#### IV. Grading

- 90-minute exam at the end of the term (70%)
- 3-4 page referee report (20%)  
Deadline **February, 27<sup>th</sup>**, **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 (November 29)  
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 (December 4)  
*Acemoglu and Robinson (2006), Albouy (2012)*
3. Geography matters (December 6)  
*Przeworski (2004), Nunn and Puga (2012)*
4. Ideas matter (December 11)  
*Mokyr (2005), Denzau and North (1994)*

##### ***Part 2 Institutional problems***

5. Developing democracy? (December 13)  
*Aidt and Jensen (2009), Lipset (1959)*
6. Culture and trust (December 18)  
*Knack and Keefer (1997), Nunn and Wantchekon (2011)*
7. Property rights (January 8)  
*Demsetz (1967), North and Weingast (1989)*

##### ***Part 3 The political economy of natural resources and foreign aid***

8. Natural resources (January 10)  
*Collier and Hoeffler (1998), Tornell and Lane (1999)*
9. Effects and side effects of aid (January 15)  
*Doucouliaagos and Paldam (2009), Knack (2004), Werker et al. (2009)*
10. Disbursing aid (January 17)  
*Dreher et al. (2008), Brech and Potrafke (2014)*

##### ***Part 4 Specific problems***

11. Trade policy (January 22)  
*Hillman (1982), Grossman and Helpman (1994)*
12. Corruption (January 24)  
*Dreher, Kotsogiannis and McCorriston (2009), Bjørnskov (2011)*
13. Students' topic (January 29)

## VI. Preliminary Tutorial Plan

Tutorials aim to help you understand the content of the lecture and to foster your presentation and referee skills. Problem sets will strengthen the understanding of the topics discussed in the lecture.

### Requirements:

- 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 3-4 pages) on the paper presented (20% of final grade).
- Participation: Active participation is strongly encouraged. Students are expected to do all required readings and to participate in the sessions. As an incentive to come well prepared, we will rank each students' participation in the tutorial with a + or -. This can help shifting the grad upwards or downwards in case the combined grade from exam, report, and presentation falls between two grades.

### Tutorial Plan:

1. Presentation of course outline (December 3)  
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 paper presentation (December 5)
3. Presentation 1 and Problem Set 1 (December 10)  
**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 91: 1369-1401.*
4. Presentation 2 and Problem Set 2 (December 12)  
**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 (December 19)  
**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. Presentations 4 and 5 (January 9)  
**Part 2 Institutional problems: Long-term effects and culture**  
*Dell, Melissa. 2010. The Persistent Effects of Peru's Mining Mita. Econometrica 78 (6): 1863-1903*  
  
*Tabellini, Guido. 2010. Culture and Institutions: Economic Development in the Regions of Europe. Journal of the European Economic Association 8 (4): 677-716.*
7. Presentation 6 and Problem Set 4 (January 14)  
**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 90 (2): 191-215.*
8. Presentation 7 and Problem Set 5 (January 16)  
**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 103 (3): 86-92.*
9. Presentation 8 and Problem Set 6 (January 21)  
**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.*
10. Presentations 9 and 10 (January 23)  
**Part 4 Specific problems: Trade policy and entrepreneurship**  
*Berman, Nicolas and Mathieu Couttenier. 2015. External Shocks, Internal Shots: The Geography of Civil Conflict. Review of Economics and Statistics 97 (4): 758-776.*  
  
*Bjørnskov, Christian and Nicolai J. Foss. 2008. Economic Freedom and Entrepreneurial Activity: Some Cross-Country Evidence. Public Choice 134: 307-328.*
11. Presentation 11 and Problem Set 7 (January 28)  
**Part 4 Specific problems: Corruption**  
*Bologna, Jamie and Amanda Ross. 2015. Corruption and Entrepreneurship: Evidence From Brazilian Municipalities. Public Choice 165: 59-77.*
12. Presentation 12 (Problem Set 8) on student's topic (January 30)
13. Exam preparation, Question hour (January 31 or February 4)

## 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.
- Doucouliaos, 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.