This course is intended as an introduction to the newly emerging field of political economy of institutions and development. Its purpose is to give you both a sense of the frontier research topics and a good command of the tools in the area. The reading list is intentionally long, to give those of you interested in the field an opportunity to dig deeper into some of the topics in this area. The lectures will cover the material with *’s in detail and also discuss the material without *’s, but in less detail.

**Grading:** The course grade will be a combination of a final exam and approximately 6 problem sets, with 25% weight on problem sets.

**Course Information:**

*Professors*
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*Lecture*
TTh 10:30-12, E51-151

*Recitation*
F 16-17.30, E51-151
1 Introduction

1.1 Does Political Economy Matter? (DA, 1 lecture)


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2 Modeling of Political Economy

2.1 Static Models (DA, 2 lectures)

This lecture will provide an introduction to models of collective choice and voting, and will consider an application of voting with multidimensional policy spaces to the problem of clientelism in the context of development economics.


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2.2 Review of Dynamic Games (recitation material)

This review lecture will go over the analysis of dynamic games, in particular, differences between Markov Perfect Equilibria and Subgame Perfect Equilibria, their properties and how they can be computed in simple games.

1. * Acemoglu, Daron, Lecture Notes, Chapter 3.

2.3 Introduction to Dynamic Voting and Constitutional Choice (DA, 2 lectures)

This lecture provides a basic introduction of voting over a distributive policies in dynamic models, and contrasts myopic versus non-myopic behavior by voters. It will also introduce ideas related to endogenous institutions and laws. We will focus on dynamic, game-theoretic models.

1. * Acemoglu, Daron, Lecture Notes, Chapters 6, 7, 22 and 23.


3 Modeling Institutions

This part of the course will focus on using the insights from the previous part to develop political economy models of institutions where we study simultaneously the consequences and the origins of institutions.

3.1 Economic Institutions under Elite Domination (DA, 1 lecture)

This lecture presents some tractable models of the determination of economic institutions and policies when a particular group is in power. The potential inefficiencies that arise because of the desire of the group in power to extract rents is contrasted with policy determination in the classical public finance approach.

1. *Acemoglu, Daron, Lecture Notes, Chapter 11.


3.2 The Role of the State and Different Political Regimes (DA, 1 lecture)

This lecture will discuss how democratic and oligarchic societies may generate different types of growth-enhancing and growth-retarding policies, and how inefficient political systems may endogenously change or remain in place despite their adverse effects. This will open the way for the later discussion of the endogenous emergence of (political) institutions. It will also discuss the role of the state in fostering or preventing economic growth.

Lecture: Tuesday, March 20.

1. * Acemoglu, Daron, Lecture Notes, Chapters 14 and 15.


### 3.3 Institutional Change and Democratization (DA, 1 lecture)

This lecture will first provide a basic model of nondemocratic politics and highlight central commitment problems involved in such interactions. It will then introduce the basic models of institutional change in the context of transitions from nondemocratic to democratic politics.

Lecture: Thursday, March 22.

1. *Acemoglu, Daron, Lecture Notes*, Chapters 17, 18 and 20.


### 3.4 Persistence and Dysfunctional Democracies (DA, 2 lectures)

This lecture expands on the analysis of dynamic models presented to discuss persistence of economic and political institutions and also how democracies that follow elite-dominated regimes may have generate a variety of different type of inefficiencies, including implicit elite dominance, clientelism, emerges of inefficient state institutions, and violence.
Note: Due to the Spring break there will be no class on Tuesday, March 27, and Thursday, March 29.

1. * Acemoglu, Daron, Lecture Notes, Chapter 21.


4 Beliefs, Culture and Institutions

4.1 Beliefs, Information and Politics (DA, 2 lectures)

This lecture will discuss the two-way interaction between between voting and beliefs, shaped by learning.

1. * Acemoglu, Daron, Lecture Notes, Chapter 7.


4.2 Culture, Values and Cooperation (DA, 1 lecture)

These two lectures will discuss some of the recent evidence suggesting persistence of culture and values, and recent models of culture and endogenous beliefs and how they interact with political economy and cooperation in society.


4. Bisin, Alberto and Thierry Verdier (2000) “Beyond the Melting Pot: Cultural Trans-


5 Voting in Practice (BO, 2 lectures)

Do politicians represent the median voter?


Do voters vote the way they want? Vote buying and voter intimidation


The technology of voting and voter manipulation


6 Collective Action (BO, 3 lectures)

Constraints on Collective Action:


**Decentralization and local capture**


7 Corruption (BO, 5 lectures)

7.1 Magnitude and efficiency costs


### 7.2 The corrupt official’s decision problem: balancing risks, rents, and incentives


7.3 The IO of corruption


7.4 Corruption and Politics

*Politicians and firms*


*Elections as a Disciplinary Device*


**Elections and the demand for corruption**


**Politicians and the rents from office**


8 Conflict (BO, 2 lectures)

*Theory:*


Empirics:


