14.773: Political Economy of Institutions and Development

Daron Acemoglu and Benjamin Olken

Spring 2012

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
to be determined
1 Introduction

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

Lecture: Tuesday, February 7.


2 Corruption (BO, 5 lectures)

Lectures: Thursday, February 9; Tuesday, February 14; Thursday, February 16, Thursday, February 23, Tuesday, February 28.

Note: There will be no class on Tuesday, February 21 since Monday, February 20 is a holiday and MIT moves Monday’s schedule to Tuesday.
2.1 Magnitude and efficiency costs


13. Riordan, William (1905), Plunkitt of Tammany Hall: A Series of Very Plain Talks on Very Practical Politics.

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


2.3 The IO of corruption


2.4 Politics and General Equilibrium Implications

Politicians and firms


Elections as a Disciplinary Device


General equilibrium implications


3 Modeling of Political Economy

3.1 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.

Lectures: Thursday, March 1; Tuesday, March 6.

1. * Acemoglu, Daron, Lecture Notes, Chapter 4.


3.2 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.


3.3 **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.

Lectures: Thursday, March 8; Tuesday, March 13.


4  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.

4.1 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.

Lecture: Thursday, March 15.


4.2 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.


### 4.3 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.


**4.4 Modeling Persistence and Change in Institutions (DA, 1 lecture)**

This lecture expands on the analysis of dynamic models presented so far to show how institutional change can coexist with institutional persistence in different spheres.

Lecture: Tuesday, April 3.

Note: Due to the Spring break there will be no class on Tuesday, March 27, and Thursday, March 29.


5 Beliefs, Culture and Institutions

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

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

Lectures: Thursday, April 5; Tuesday, April 10.


5.2 Culture, Values and Cooperation (DA, 3 lectures)

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.

Lectures: Thursday, April 12; Thursday, April 19; Tuesday, April 24
Note: Tuesday, April 17 is a student holiday at MIT.


6 Politicians, Voters, and the Media

6.1 Are politicians and voters well aligned in practice? (BO, 2 lectures)

Lectures: Thursday, April 26; Tuesday, May 1.

Do politicians represent the median voter?


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


3. Finan, Frederico and Laura Schecter (2009) "Vote-Buying and Reciprocity?", NBER WP No. 14923

4. Vicente, Pedro (2008), "Is Vote Buying Effective? Evidence from a Field Experiment in West Africa?"


*Do voters even know what they want?


6.2 Media and voter information (BO, 2 lectures)

Lectures: Thursday, May 3; Tuesday, May 8.

*Political influence on media


*Media bias and voting


2. Snyder, James M. and David Stromberg (forthcoming), "Press Coverage and Political Accountability," JPE.


Media and conflict


7. Collective Action (BO, 2 lectures)

Lectures: Thursday, May 10; Tuesday, May 15.

Constraints on Collective Action:

1. Olson, Mancur (1965), The Logic of Collective Action.


6. Olken, Benjamin A. and Monica Singhal (2009), "Informal Taxation," mimeo, MIT.


Promoting Collective Action


8. Conflict (BO, 1 lecture)

Lecture: Thursday, May 17.

Theory:


Empirics:


21. Beath, Andrew, Fotini Christia, Ruben Enikolopov, Winning Hearts and Minds: Evidence from a Field Experiment in Afghanistan”, MIT Political Science Department, WP # 2011-14