14.773: Political Economy of Institutions and Development (First Part)

Daron Acemoglu and Abhijit Banerjee

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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 4-5:30 E51-151
1 Introduction

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


2 Modeling of Political Economy

2.1 Review: Static Models (Recitation)

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.

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


2.2 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.


2.3 Review: Dynamic Games (Recitation)

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 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, Chapters 11 and 14.


### 3.2 Labor Coercion (DA, 1 lecture)

This literature focuses on one type of economic institution under the domination of one group, coercive labor relations, to provide more insights on how different types of inefficiencies can emerge.


### 3.3 Weak States and State Building (DA, 2 lectures)

These lectures will discuss the role of the state and how weak states can become a barrier to economic development. They will then turn to see how and under what circumstances states form and why weak states persist.


### 3.4 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.


3.5 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.

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.


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.


