14.773: Political Economy of Institutions and Development

Daron Acemoglu and Benjamin Olken

Spring 2020.

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*
Daron Acemoglu: daron@mit.edu
Benjamin Olken:

*Teaching Assistant*
Cory Smith: corybsmith@gmail.com Office Hours: Tue 4-5, E52-416

*Lecture*
TTh 10:30-12, E51-376

*Recitation*
F 4-5:30, E51-376
1 Introduction

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


2 Distribution and Efficiency

This part of the course will consider how various economic arrangements and policies meant to influence the distribution of resources affect efficiency. The focus is on situations in which a well-defined elite holds political power and political power is not contested.

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.


2.2 Economic Policies under Elite Control (DA, 1 lecture)


   - Chapter 22: Institutions, Political Economy, and Growth


2.3 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 Dynamics of Political Power

This part of the course turns to how political power evolves and interacts with economic decisions.

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

This lecture provides a basic introduction of voting over 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.
3.2 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.

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 Political Economy of 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.


4.2 Democratization and Persistence (DA, 2 lectures)

These two lectures 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. Finally, it will discuss various ways in which the distribution of power may persist despite institutional change.

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


4.3 Political (and other) Preferences (BO, 1 lecture)

Note: Ben will lecture on 3/5 and Daron will lecture on 4/21


5 Beliefs, Norms and Institutions

This part of the course turns to the interplay between beliefs, norms and political choices.

5.1 Beliefs, Information and Politics (DA, 1 lecture)

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


5.2 Culture, Norms and Political Economy (DA, 3 lectures)

These 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. Note: This topic will be split and some material will be covered in Daron’s 4/21 lecture.


6 Conflict (BO, 3 lectures: 3/31, 4/2)

6.1 Theory: Why Does Conflict Take Place? Bargaining Failures and Other Reasons


6.2 Empirics

6.2.1 Why does conflict occur? Costs, benefits, and other factors

6.2.2 Counterinsurgency


6.2.3 The Costs of Conflict


7 Media (BO, 3 lectures: 4/7, 4/9, 4/14)

7.1 Media Bias and Voting


7.2 Social Media and Politics


7.3 Media and Accountability


7.4 Media, Policy, and Influence: A Two-Way Street


7.5 Government Influence on the Media


8 Coordination, the Media, and Politics (BO, 1-2 lectures: 4/16)


9 **Bureaucracy (BO, 2 lectures: 4/24, 4/28)**

*Note:* Daron will lecture on 4/21 and recitation will be held in class on 4/23. Ben will lecture during the recitation slot on 4/24

9.1 **Do Bureaucrats Matter?**


9.2 Incentives for and Allocation of Bureaucrats


9.3 Selection of Bureaucrats


10 Corruption (BO, 3 lectures: 4/30, 5/5, 5/7)

10.1 Measurement and Efficiency Costs


10.2 The Official’s Decision to Be Corrupt: Wages, Incentives, and Selection


10.3 The IO of Corruption


