

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

Daron Acemoglu and Abhijit Banerjee

Spring 2014

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](mailto:daron@mit.edu)

Abhijit Banerjee: [banerjee@mit.edu](mailto:banerjee@mit.edu)

### *Teaching Assistant*

Dana Foarta e-mail: [ofoarta@MIT.EDU](mailto:ofoarta@MIT.EDU).

### *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)

1. Acemoglu, Daron, *Lecture Notes*, Chapters 1 and 2.
2. \* Acemoglu, Daron, Johnson, Simon and Robinson, James (2006) "Institutions as a Fundamental Cause of Long-Run Growth" in *Handbook of Economic Growth*, Aghion, Philippe and Durlauf, Steven, eds. Amsterdam; North-Holland.
3. \* Acemoglu, Daron (2003) "Why Not a Political Coase Theorem?" *Journal of Comparative Economics*, 31, 620-652.
4. Demsetz, Harold (1967) "Toward a Theory of Property Rights," *American Economic Review*, 57, 61-70.
5. Taylor, M Scott (2011) "Buffalo Hunt: International Trade and the Virtual Extinction of the North American Bison." *American Economic Review*, 101(7), 3162-95.
6. Allen, Robert C. (1982) "The Efficiency and Distributional Consequences of Eighteenth Century Enclosures," *Economic Journal*, 92, 937-953.
7. La Porta, Rafael, Lopez-de-Silanes, Florencio, Shleifer, Andrei, and Vishny, Robert W. (1998) "Law and Finance," *Journal of Political Economy*, 106, 1113-1155.
8. \*Acemoglu, Daron, Johnson, Simon and Robinson, James A. (2001) "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, 91, 1369-1401.
9. \*Acemoglu, Daron, Johnson, Simon and Robinson, James (2002) "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics*, 107, 1231-1294.
10. \*Jones, Benjamin F. and Olken, Benjamin A. (2005) "Do Leaders Matter? National Leadership and Growth Since World War II," *Quarterly Journal of Economics*, 120, 835-864.
11. \*Udry, Christopher and Goldstein, Markus (2005) "The Profits of Power: Land Rights and Agricultural Investment in Ghana,"  
<http://www.econ.yale.edu/~cru2/pdf/goldsteinudry.pdf> forthcoming in the *Journal of Political Economy*.
12. Banerjee, Abhijit and Iyer, Lakshmi (2005) "History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India." *American Economic Review*, 95, 1190-1213.

13. Pande, Rohini and Udry, Christopher (2005) “Institutions and Development: A View from Below,” to appear in the Proceedings of the 9th World Congress of the Econometric Society, Blundell, Richard, Newey, W., and Persson, Torsten  
[http://www.econ.yale.edu/~rp269/website/papers/institutions\\_draft.pdf](http://www.econ.yale.edu/~rp269/website/papers/institutions_draft.pdf)
14. Persson, Torsten and Tabellini, Guido (2003) *The Economic Effects of Constitutions: What Do the Data Say?* MIT Press, Cambridge.
15. Acemoglu, Daron (2005) “Constitutions, Politics and Economic Growth: Review Essay on Persson and Tabellini’s *The Economic Effects of Constitutions*,” *Journal of Economic Literature*, XLIII, 1025-1048.
16. Acemoglu, Daron, Davide Cantoni, Simon Johnson and James A Robinson (2011) “The Consequences of Radical Reform: The French Revolution,” *American Economic Review* 101(7), pp. 3286–3307.

## 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. \* Acemoglu, Daron (2008) *Introduction to Modern Economic Growth*, Chapter 22.
3. Austen-Smith, David and Banks, Jeffrey (1999) *Positive Political Theory: Collective Preference*, Ann Arbor; University of Michigan Press.
4. Persson, Torsten and Tabellini, Guido (2000) *Political Economics: Explaining Economic Policy*, Cambridge; The MIT Press, Chapters 2, 3 and 6.
5. Acemoglu, Daron and Robinson, James (2006) “Chapter 4: Democratic Politics” and “Appendix to Chapter 4: Distribution of Power in Democracy” in *Economic Origins of Dictatorship and Democracy*, Acemoglu, Daron and Robinson, James, eds. Cambridge University Press.
6. \* Lindbeck, Assar, and Weibull, Jorgen W. (1987) “Balanced-Budget Redistribution as the Outcome of Political Competition.” *Public Choice* 52: 273-297.

## 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.

1. \* Acemoglu, Daron, *Lecture Notes*, Chapters 6, 7, 22 and 23.
2. \* Acemoglu, Daron, Egorov, Georgy and Sonin, Konstantin (2008) “Coalition Formation in Nondemocratic Societies.” *Review of Economic Studies*, 75: 987-1009.
3. \* Roberts, Kevin (2005) “Dynamic Voting in Clubs,” <http://www.nuff.ox.ac.uk/Users/Roberts/pap>
4. \* Acemoglu, Daron, Georgy Egorov and Konstantin Sonin (2012) “Political Economy in a Changing World,” mimeo.
5. Alesina, Alberto and Rodrik, Dani (1994) “Distributive Politics and Economic Growth” *Quarterly Journal of Economics*, 109: 465-490.
6. Hassler Jon, Mora, Sevi, Storlesseten, Kjetil and Zilibotti, Fabrizio (2003) “Survival of the Welfare State,” *American Economic Review*, 93, 87-112.
7. Krusell, Per and Rios-Rull, Jose-Victor (1996). “Vested Interests in a Positive Theory of Stagnation and Growth,” *Review of Economic Studies* 63, 301-329.
8. Benabou, Roland and Ok, Efe, “Social Mobility and the Demand for Redistribution”, *Quarterly Journal of Economics*, May, 2001.
9. Acemoglu, Daron, Egorov, Georgy and Sonin, Konstantin (2014) “Social Mobility and Support for Democracy,” mimeo.
10. Mailath, George J., Morris, Stephen and Postelwaite, Andrew (2001) “Laws and Authority,” <http://www.econ.yale.edu/~sm326/authority.pdf>
11. \* Acemoglu, Daron, Egorov, Georgy and Sonin, Konstantin (2011) “Dynamics and Stability of Constitutions, Coalitions and Clubs,” *American Economic Review*, 102(4), 1446-1476.
12. \* Barbera, Salvador and Jackson, Matthew (2004) “Choosing How to Choose: Self-Stable Majority Rules and Constitutions,” *Quarterly Journal of Economics*, 119, 1011-1048.
13. Dixit, Avinash, Grossman, Gene M., and Gul, Faruk (2000) “The Dynamics of Political Compromise,” *Journal of Political Economy* 108, 531-568.

## 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.
2. \* Fudenberg, Drew and Tirole, Jean (1991) *Game Theory*, Cambridge; MIT Press. Chapters 4, 5 and 13.
3. \* Acemoglu, Daron (2008) *Introduction to Modern Economic Growth*, Appendix Chapter C.

## 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.
2. \* Acemoglu, Daron (2005) “Modelling Inefficient Institutions,” *Advances in Economic Theory World Congress 2006*, [http://econ-www.mit.edu/faculty/download\\_pdf.php?id=1214](http://econ-www.mit.edu/faculty/download_pdf.php?id=1214)
3. \* Acemoglu, Daron (2008) *Introduction to Modern Economic Growth*, Chapter 22.
4. Acemoglu, Daron and Robinson, James A. (2006) “Economic Backwardness in Political Perspective,” *American Political Science Review*, 2006 February.
5. Mirrlees, James (1985) “The Theory of Optimum Taxation”, in the *Handbook of Mathematical Economics*, eds. Arrow and Intriligator, Vol.III, North-Holland, 1985
6. Atkinson, Anthony and Stiglitz, Joseph E. (1980) *Lectures on Public Economics*, New York; McGraw-Hill, Chapter 11

7. Fergusson, Leopoldo (2013) “The Political Economy of Rural Property Rights and the Persistence of the Dual Economy” *Journal of Development Economics*, 103, 167-181.
8. \* Acemoglu, Daron (2008) “Oligarchic versus Democratic Societies,” *Journal of European Economic Association*.
9. Olson, Mancur (1982) *The Rise and Decline of Nations: Economic Growth, Stagflation, and Economic Rigidities*, Yale University Press, New Haven and London.

### 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.

1. \* Brenner, Robert (1976) “Agrarian Class-Structure and Economic-Development in Pre-Industrial Europe,” *Past and Present*, 70, 30-75.
2. Aston, T.H. and Philpin, C.H.E. (1987) *The Brenner Debate: Agrarian Class Structure and Economic Development in Pre-Industrial Europe*, Cambridge: Cambridge University Press.
3. \* Acemoglu, Daron and Alexander Wolitzky (2011) “The Economics of Labor Coercion,” *Econometrica*, March 2011, 79(2), pp. 555-600.
4. Chwe, Michael (1990) “Why Were Workers Whipped? Pain in a Principal-Agent Model,” *Economic Journal*, 100, 1109-1121.
5. Basu, Kaushik (1986) “One Kind of Power,” *Oxford Economic Papers*, 38, 259-282.
6. Barzel, Yoram (1977) “An Economic Analysis of Slavery,” *Journal of Law and Economics*, 20, 87-110.
7. Bloom, J. (1998) *The End of the Old Order in Rural Europe*, Princeton: Princeton University Press.
8. Domar, Evsey D. (1970) “The Causes of Slavery or Serfdom: A Hypothesis,” *Journal of Economic History*, 30, 18-32.
9. Lagerlöf, N. (2009) “Slavery and Other Property Rights,” *Review of Economic Studies*, 76, 319-342.
10. \* Dell, Melissa (2010) “The Persistent Effects of Peru’s Mining Mita,” *Econometrica*, 78(6), 1863-1903.

11. \* Naidu, Suresh and Noam Yuchtman (2013) “Coercive Contract Enforcement: Law and the Labor Market in 19th Century Industrial Britain,” *American Economic Review*, 103(1), 107-144.
12. \* Acemoglu, Daron, Camilo Garcia-Jimeno and James Robinson (2012) “Finding El Dorado: Slavery and Long-run Development in Columbia” *Journal of Comparative Economics*, 40(4), pp. 534-564.

### 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.

1. Tilly, Charles (1990) *Coercion, Capital and European States, AD 990-1990*, Blackwell, Cambridge MA.
2. Mann, Michael (1986). *The Sources of Social Power, Volume I*, Cambridge University Press, New York.
3. Evans, Peter (1989) “Predatory, Developmental and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State,” *Sociological Forum*. 4(4):561-587 (December, 1989).
4. \* Gennaioli, Nicola and Ilija Rainer (2007). “The Modern Impact of Pre-Colonial Centralization in Africa”, *Journal of Economic Growth*, 12(3), 185-234.
5. \* Michalopoulos, Stelios and Elias Papaioannou (2013). “Pre-Colonial Ethnic Institutions and Contemporary African Development”, *Econometrica*, 81(1), 113–152.
6. Bockstette, Valerie, Areendam Chanda and Louis Putterman (2002). “States and Markets: The Advantage of an Early Start”, *Journal of Economic Growth*, 7: 347-69.
7. Osafo-Kwaako, Philip and James A. Robinson (2013). “Political Centralization in Pre-Colonial Africa,” *Journal of Comparative Economics*, *Journal of Comparative Economics*, 41(1), 534-564.
8. \* Acemoglu, Daron, *Lecture Notes*, Chapter 15.
9. \* Acemoglu, Daron (2005) “Politics and Economics in Weak and Strong States” *Journal of Monetary Economics*, 52, 1199-1226.
10. \* Besley, Timothy and Torsten Persson (2009). “The Origins of State Capacity: Property Rights, Taxation and Politics”, *American Economic Review*, 99(4), 1218-44.

11. Waldner, David (1999). *State-Building and Late Development*, Ithaca, Cornell University Press.
12. Tilly, Charles (1985) “War Making and State Making as Organized Crime,” in P. Evans, D. Rueschmeyer and T. Skocpol eds. *Bringing the State Back In*, Cambridge University Press.
13. Gennaioli, Nicola and Hans-Joachim Voth (2011). “State Capacity and Military Conflict”, unpublished.
14. Herbst, Jeffery I. (2000) *States and Power in Africa: Comparative Lessons in Authority and Control*, Princeton University Press, Princeton NJ.
15. Besley, Timothy and Persson, Torsten (2011) *Pillars of Prosperity: The Political Economics of Development Clusters*, Princeton University Press.
16. \* Acemoglu, Daron, Golosov, Michael and Tsyvinski, Aleh (2010) “Power Fluctuations and the Structure of Taxation” *Journal of Economic Theory*.
17. \* Acemoglu, Daron, Camilo Garcia-Jimeno and James Robinson (2013) “State Capacity and Economic Development: A Network Approach,” NBER working paper.
18. \* Acemoglu, Daron, James A. Robinson and Rafael Santos (2012) “The Monopoly of Violence: Evidence from Colombia” *Journal of European Economic Association*, 11(1), 5-44.
19. \* Blair, Robert (2013) “Peacebuilding and State Legitimacy: Evidence from Two Lab in the Field Experiments in Liberia” Yale mimeo.
20. \* Sanchez de la Sierra, Raul (2013) “On the Origins of the State: Stationary Bandits and Taxation in Eastern Congo” mimeo, Colombia.

### 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.

1. \* Acemoglu, Daron, *Lecture Notes*, Chapters 17, 18 and 20.
2. \* Acemoglu, Daron and Robinson, James (2006) *Economic Origins of Dictatorship and Democracy*, Cambridge University Press, Chapters 5 and 6.



3. \* North, Douglass C. and Weingast, Barry R. (1989) "Constitutions and Commitment: Evolution of Institutions Governing Public Choice in Seventeenth Century England," *Journal of Economic History*, 49, 803-832.
4. \* Acemoglu, Daron and Robinson, James A. (2000) "Why Did the West Extend the Franchise? Growth, Inequality and Democracy in Historical Perspective", *Quarterly Journal of Economics*, CXV, 1167-1199.
5. \* Aidt, Toke S. and Peter S. Jensen (2013) "Workers of the World Unite! Franchise Extensions and the Threat of Revolution in Europe, 1820-1938," University of Cambridge mimeo.
6. Llavador, Humberto and Oxoby, Robert J. (2005) "Partisan Competition, Growth, and the Franchise," *Quarterly Journal of Economics*, 120, 1155-1192.
7. Jack, William and Lagunoff, Roger (2006) "Dynamic Enfranchisement," *Journal of Public Economics*, 90(4-5), 551-572
8. Moore, Barrington (1966) *The Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*, Beacon Press, Boston MA.
9. Lagunoff, Roger (2006) "Markov Equilibrium in Models of Dynamic Endogenous Political Institutions" <http://www.georgetown.edu/faculty/lagunoff/>
10. \* Lagunoff, Roger (2006) "Dynamic Stability and reform of Political Institutions," <http://www.georgetown.edu/faculty/lagunoff/>

### 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.
2. Arthur, W. Brian. (1989) "Competing Technologies, Increasing Returns and Lock-In by Historical Events," *Economic Journal*, 1989, 99(1), pp. 106-131.
3. Coate, Stephen and Morris, Stephen E. (1999) "Policy Persistence." *American Economic Review*, 1999, 89(5), pp. 1327-1336.
4. Page, Scott (2006) "Path Dependence," *Quarterly Journal of Political Science*, 1, 87-115.

5. \* Acemoglu, Daron and Robinson, James A. (2008) “Persistence of Power, Elites and Institutions,” *American Economic Review* 98(1), 267-291.
6. Albertus, Michael and Victor Menaldo (2013) “Gaming Democracy: Elite Dominance During Transition and the Prospects for Redistribution,” forthcoming *British Journal of Political Science*.
7. \* Baland, Jean-Marie and James A. Robinson (2008) “Land and Power: Theory and Evidence from Chile,” *American Economic Review*, 98, 1737–65.
8. Thelen, Kathleen (2004) *How institutions evolve: the political economy of skills in Germany, Britain, the United States, and Japan*, New York; Cambridge University Press.
9. \* Lizzeri, Alessandro and Nicola Persico (2005) “A drawback of electoral competition.” *Journal of the European Economic Association* 3 (4), 1318-1348.
10. \* Horacio Larreguy (2012) “Monitoring Political Brokers: Evidence from Clientelistic Networks in Mexico” mimeo.
11. \* Acemoglu, Daron, James A. Robinson and Ragnar Torvik (2012) “Why Do Voters Dismantle Checks and Balances?” forthcoming *Review of Economic Studies*.
12. \* Acemoglu, Daron, Davide Ticchi and Andrea Vindigni (2010) “Emergence and Persistence of Inefficient States,” *Journal of European Economic Association*, 9(2), pp. 177-208.

## 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.
2. \* Piketty, Thomas, (1995) “Social Mobility and Redistributive Politics,” *Quarterly Journal of Economics*, 110: 551-584.
3. Austen-Smith, David (1991) “Rational Consumers and Irrational Voters,” *Economics and Politics*, 3:73-92.
4. \* Feddersen, Timothy and Wolfgang Pesendorfer (1996) “The Swing Voter’s Curse,” *American Economic Review*, 86: 408-424.

5. Fey, Mark and J. Kim (2002) “The Swing Voter’s Curse: A Comment,” *American Economic Review*, 92: 1264-1268.
6. \* Strulovici, Bruno (2010) “Voting and Experimentation,” *Econometrica*.
7. \* Acemoglu, Daron, Egorov, Georgy and Sonin, Konstantin (2012) “A Political Theory of Populism,” *Quarterly Journal of Economics* 128(2), pp. 771-805.
8. \* Acemoglu, Daron and Alexander Wolitzky (2014) “Cycles of Conflict: An Economic Model” forthcoming *American Economic Review*.

## 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.

1. \* Greif, Avner (1994) “Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies,” *Journal of Political Economy*, 102, 912-950.
2. \* Tabellini, Guido (2008) “Culture and Institutions.” *Journal of European Economic Association*, 2008, 255-294.
3. Tabellini, Guido (2010) “Culture and Institutions: Economic Development in the Regions of Europe.” *Journal of European Economic Association*, 8, 677-716.
4. \* Guiso, Luigi, Paola Sapienza and Luigi Zingales (2006) “Does Culture Affect Economic Outcomes?” *Journal of Economic Perspectives*, 20, 23-48.
5. Guiso, Luigi, Paola Sapienza and Luigi Zingales (2009) “Cultural Biases in Economic Exchange,” *Quarterly Journal of Economics*, 124, 1095-1131.
6. Fernandez, Raquel and Alessandra Fogli (2009) “Culture: An Empirical Investigation of Beliefs, Work and Fertility,” *American Economic Journal: Macroeconomics*, 1, 146-177.
7. Roland, Gerard and Yury Gorodnichenko (2012) “Culture, Institutions and the Wealth of Nations” Berkeley mimeo.
8. Acemoglu, Daron, Ufuk Akcigit and Murat Alp Celik (2014) “Young, Restless and Creative: Openness to Disruption and Creative Innovations”, mimeo.
9. \* Voth, Hans-Joachim and Nico Voigtlander (2012) “Persecution Perpetuated: The Medieval Origins of Antisemitic Violence in Nazi Germany” *Quarterly Journal of Economics*,

10. \* Acemoglu, Daron, Tristan Reed and James Robinson (2014) “Chiefs: Economic Development and Elite Control of Civil Society in Sierra Leone” forthcoming *Journal of Political Economy*.
11. \* Bisin, Alberto and Thierry Verdier (2001) “The Economics of Cultural Transmission and the Dynamics of Preferences,” *Journal of Economic Theory*, 97, 298-319.
12. Bisin, Alberto and Thierry Verdier (2000) “Beyond the Melting Pot: Cultural Transmission, Marriage, and the Evolution of Ethnic and Religious Traits,” *Quarterly Journal of Economics*, 115, 955-988.
13. \* Tabellini, Guido (2008) “The Scope of Cooperation: Values and Incentives,” *Quarterly Journal of Economics*, 123, 905-950.
14. Doepke, Matthias and Fabrizio Zilibotti (2008) “Occupational Mobility in the Spirit of Capitalism,” *Quarterly Journal of Economics*, 123, 747-793.
15. \* Acemoglu, Daron and Matthew Jackson (2010) “History and Expectations in the Evolution of Cooperation,” NBER working paper.
16. Benabou, Roland and Jean Tirole (2011) “Laws and Social Norms” mimeo.
17. Acemoglu, Daron and Matthew Jackson (2013) “Norms and the Enforcement of Laws” mimeo.