Syllabus 14.773
Political Economy of Institutions and Development

Spring 2024

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Canvas: https://canvas.mit.edu/courses/24293

Lectures and room

- The main lectures are on Tuesdays and Thursdays from 10:30 am to 12:00 pm in room E51-151, starting on February 6th.

- The recitations are on Fridays from 4:00 pm to 5:30 pm in room E51-395, starting on February 9th.

- Exception: There will be main lectures on February 16th and March 15th with Professor Daron Acemoglu (4:00 pm to 5:30 pm, E51-395). Instead, recitations will take place on February 27th and March 12th with Carlos Molina (10:30 am to 12:00 pm, E51-151).

Course Description: 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 6 problem sets, with 25% weight on problem sets.
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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)


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.


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 three 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.


6 Media (BO, ≈ 3 lectures, April 2, 4, and 9)

6.1 Media Bias (2 lectures)


6.2 Social Media and Politics (1 lecture)


6.3 Media and Accountability (1 lecture)


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

6.5 Government Influence on the Media


7 Coordination and Protests (BO, ≈ 2 lectures, April 11 and 16)


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• Caprettini, Bruno, Marcel Caesmann, Hans-Joachim Voth and David Yanagizawa-Drott, “Going Viral: Protests and Polarization in 1932 Hamburg”.


8 Conflict (BO, ≈ 3 lectures, April 18, 23, 25)

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


8.2 Empirics

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


8.2.2 Counterinsurgency


8.2.3 The Costs of Conflict


9 Bureaucracy (BO, ≈ 2 lectures, April 30 and May 2)

9.1 Do Bureaucrats Matter?

• * Best, Michael Carlos, Jonas Hjort and David Szakonyi (2017). “Individuals and Organizations as Sources of State Effectiveness, and Consequences for Policy Design.” Mimeo.


9.2 Incentives for and Allocation of Bureaucrats


### 9.3 Selection of Bureaucrats


9.4 Politics and the Bureaucracy


9.5 The level of control


10 Corruption (BO, ≈ 2-3 lectures, May 7, 9, 14)

10.1 What is corruption: Conceptual issues and measurement strategies


10.2 Combatting corruption: Evidence from anti-corruption interventions


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


10.4 The IO of Corruption


11 Alternate Social Structures (guest lecture: Jacob Moscona, May 14)


