

## Syllabus: Applied Political Economy and Development

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**Description:** This course is designed to give students a snap-shot of research frontier in the political economy of economic development. The main aim of the literature is to understand (some of) the massive income differences between countries by analyzing how politics and economics interact. The course discusses a heterogenous field in terms of methodology with a strong effort to combine economic theory and data.

**Objective:** The close relation to development economics means that the course will offer some "policy conclusions" to take home. At the end of the course students will have an understanding of how institutions, power and economic outcomes interact with each other. They will also be familiar with a wealth of concepts used in political economy and development economics today.

However, the main objective of the course is to teach the joint use of theoretical and empirical research tools. Regular homework will let students refine their skills in using both together.

**Grading:** Students have to write a short piece that is to be handed in at the end of the term. Further details will be discussed in class.

### Session 1: Motivation and Empirical Tools

This session will motivate the focus on political economy and the move away from standard growth models towards "institutional economics". We will also discuss the empirical methods. These methods will thereafter be assumed as understood.

Main sources: [www.politik-salon.de](http://www.politik-salon.de)

Not covered but extremely useful: <http://econ-www.mit.edu/files/806>

### Session 2: Democracy and Income I

The connection between Democracy and Income is an intensely debated topic. This session discusses the direction income  $\rightarrow$  democracy. Also, we discuss the widely used Polity IV dataset and some case studies.

Main sources:

- Daron Acemoglu and James A. Robinson (2006) *Economic Origins of Dictatorship and Democracy*. New York: Cambridge University Press.
- Polity IV data guide: <http://www.systemicpeace.org/inscr/p4manualv2009.pdf>
- Daron Acemoglu, Simon Johnson, James A. Robinson, and Pierre Yared (2008) Income and Democracy. *American Economic Review*, 98:3, 808–842.
- Robert J. Barro (1999) Determinants of Democracy. *Journal of Political Economy*, 107, No. 6, pp. S158-S183

### **Session 3: Democracy and Income II**

In this section we discuss ways in which the literature has tried to step out of the reverse causality problem. Variation across time has been used to "tell stories" that are more convincing than simple cross country regressions - despite the fact that they use the same data. A main message of the research is that countries seem to react very differently to the same set of institutions. The session will end with an illustration of how the literature has tried to explain this heterogeneity.

Main sources:

- Dani Rodrik and Romaní Wacziarg (2005) Do Democratic Transitions Produce Bad Economic Outcomes? AER Papers and Proceedings, 95(2).
- Torsten Persson and Guido Tabellini (2009) Democratic Capital: The Nexus of Political and Economic Change. American Economic Journal: Macroeconomics 2009, 1:2, 88–126.
- Alesina, Agion and Trebbi (2007) Democracy, Technology and Growth. NBER Working Paper No. 13180.

### **Session 4: Unwrapping Democracy**

In this session we will try to understand why democracy should matter at all. This will lead us to talk about some of the mechanisms that are at work when the bundle of institutions called "democracy" are adopted.

- Maskin and Tirole (2004) The Politician and the Judge: Accountability in Government. American Economic Review 94(4), pages 1034-1054
- Besley, Persson and Sturm (2010) Political Competition, Policy and Growth: Theory and Evidence from the United States. Review of Economic Studies, 77, 1329–1352.
- Chattopadhyay, Raghavendra and Esther Duflo (2004) Women as Policy Makers: Evidence from a Randomized Policy Experiment in India. Econometrica, 72(5), pp. 1409–1443.

### **Session 5: Bureaucracy**

Most government business is conducted by bureaucrats. In discussions of "governance" in development this fact becomes most obvious. This session will take a look at two aspects of how the bureaucracy affects governance - bureaucratic institutions and corruption.

Main sources:

- Mueller, Hannes (2009) Patronage or Meritocracy: See [www.politik-salon.de](http://www.politik-salon.de) section (research).
- Iyer, Lakshmi and Anandi Mani (2010) Traveling Agents: Political Change and Bureaucratic Turnover in India. *Review of Economics and Statistics*.
- Svensson, Jakob (2010) Eight Questions about Corruption. *Journal of Economic Perspectives*, 19 (3), 19 – 42.
- Bandiera, Oriana; Andrea Prat and Tommaso Valletti (2009) Active and Passive Waste in Government Spending: Evidence from a Policy Experiment. *American Economic Review*, 99(4): 1278–1308.

### **Session 6: Violence and the State**

This session will look at the interplay between violence, state building and economic development. While this topic is relatively new in economics it has a long been studied in political science and history.

Main sources:

- North, Wallis and Weingast (2009) *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. Introduction.
- Besley and Persson (2011) *Pillars of Prosperity*. Princeton University Press. Chapter 2. OR Besley, Tim and Torsten Persson (2010) State Capacity, Conflict, and Development. *Econometrica*, 78(1) (January, 2010), 1–34.
- Acemoglu, Daron; James A. Robinson and Rafael J. Santos Villagran (2010) The Monopoly of Violence: Evidence from Colombia. Mimeo.

### **Session 7: The Media as a Transmission Mechanism**

In this session we will analyze the role of the media as an institution that can make both government more accountable and influence voting behavior on the other hand.

- Snyder, James and David Strömberg (2010) Press Coverage and Political Accountability. *Journal of Political Economy*, 118(2), pp. 355-408.
- Besley, Timothy, and Robin Burgess (2002) The Political Economy of Government Responsiveness: Theory and Evidence from India. *Quarterly Journal of Economics*. 117, pp. 1415–52.
- DellaVigna, Stefano and Ethan Kaplan (2007) The Fox News Effect: Media Bias and Voting. *Quarterly Journal of Economics*, 122, pp. 1187-1234.

- Groseclose, Tim and Jeffrey Milyo (2005) A Measure of Media Bias. *Quarterly Journal of Economics*, 120(4), pp. 1191-1237.

### **Session 8: Economic and Political Power I**

There are various channels which transform economic in political power. This session will discuss why this can be a problem for economic development and examples for how both legal and political institutions are endogenous to power.

Main sources:

- Acemoglu, Daron and James A. Robinson (2000) Political Losers as a Barrier to Economic Development. *American Economic Review*, 90, No. 2, Papers and Proceedings.
- Acemoglu, Daron and James A. Robinson (2008) Persistence of Power, Elites, and Institutions. *American Economic Review*, 98(1), 267–93.
- Glaeser, Edward and Andrei Shleifer (2002) Legal Origins. *Quarterly Journal of Economics*, 117(4), pp. 1193-1229.
- Baland, Jean-Marie and James A. Robinson (2008) Land and Power: Theory and Evidence from Chile. *American Economic Review*, 98(5), pp. 1737-65.

### **Session 9: Economic and Political Power II**

This session will give an overview over various aspects of the power-economics link. The focus of this session is on showing the exciting variety of empirical work in this field. This will also lead us to discuss the international aspect of the link.

- Banerjee, Abhijit and Lakshmi Iyer (2005) History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India, *American Economic Review*, 95(4), pp. 1190-1213.
- Goldstein, Markus and Christopher Udry (2008) Profits of Power: Land Rights and Agricultural Investment in Ghana. *Journal of Political Economy*, 116(6), pp. 981-1022.
- Dube; Kaplan and Naidu (2011) Coups, Corporations, and Classified Information. *Quarterly Journal of Economics*.
- Kuziemko, Ilyana and Eric Werker (2006) How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations. *Journal of Political Economy*, 114(5), pp. 905-930.

### **Session 10: Application Session - The Political Economy of Peru**

In this session students will present their work on Peru. The restrictions of the work are that it should contain elements of both politics and economics in Peru and have a theoretical and empirical part which work hand-in-hand. All work will be discussed in class to give students the chance to change elements.