
**Political Science 580. Political Economy of Development
Economics, Political Science 582. Political Economy II**

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Harkness 327

Office Hours: MW 11–12

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Course Info:

Spring 2008

MW 9:40–10:55

Harkness 112

This course reviews recent advances in the newly emerging field of political economy of institutions and development. The objective of the course is to provide students with a survey of current research questions and a command of the tools used in the field.

Course Requirements

The course grade is a combination of problem sets (25%), two topic reviews and one topic presentation (25%) and a final exam (50%). Problem sets generally consist of a handful of mathematical problems related to some articles covered in class. Topic reviews are short written assignments (no longer than six pages) where the student summarizes three articles dealing with one narrow topic, explains the main contribution of each article, the questions that remain unresolved and the approach that would be taken to address these shortcomings. The findings are then presented to the whole class in one topic presentation at the end of the semester. The final exam is a combination of mathematical problems and short essays. It is given during the period scheduled by the University — please check the schedule published by the University and make your holiday travel plans accordingly. Please see the end of the syllabus for a complete schedule of assignments.

Texts and References

The reading list is long. I have done this on purpose, to help you dig deeper in any topic (for a topic review, for example). You are required to read the references marked with a * prior to coming to class (only those references, but all those references). There is no required textbook for the class. All the * articles are available electronically, all the * books are on reserve at Rush Rhees library.

Academic Integrity

Be familiar with the University's policies on academic integrity and disciplinary action (<http://www.rochester.edu/College/honesty/students.html>). Violators of University regulations on academic integrity will be dealt with severely, which means that your grade will suffer, and I will forward your case to the Chair of the College Board on Academic Honesty.

Course Outline

1. Introduction to the Political Economy of Development (one lecture)

The purpose of this section is to offer a brief overview of the outline of the course and the central role that institutions play in determining economic outcomes.

Wednesday January 16

- Acemoglu, Daron, Simon Johnson and James A. Robinson. 2001. 'The Colonial Origins of Comparative Development: An Empirical Investigation' *American Economic Review*. 91(5): 1369-1401.
- Acemoglu, Daron, Simon Johnson and James A. Robinson. 2002. 'Reversal of Fortune: Geography and Institutions in the Making of the World Income Distribution.' *Quarterly Journal of Economics*. 117(4): 1231-1294.
- *Acemoglu, Daron, Simon Johnson and James A. Robinson. 2006. 'Institutions as a Fundamental Cause of Long-Run Growth' in Philippe Aghion and Steven Durlauf. eds. *Handbook of Economic Growth*. Amsterdam: North Holland: 385-421 (available electronically through the Library website).
- Barro, Robert J. 1996. 'Democracy and Growth' *Journal of Economic Growth*. 1(1): 1-27.
- Barro, Robert J. and Xavier Sala-i-Martin. 1999. *Economic Growth*. The MIT Press: 26-31.
- Engerman, Stanley L. and Kenneth L. Sokoloff. 1997. 'Factor Endowments, Inequality, and Differential Paths of Growth Among New World Economies: A View from Economic Historians of the United States' in Stephen Haber. ed. *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800-1914*. Stanford, CA: Stanford University Press.
- Glaeser, Edward L. and Andrei Shleifer. 'Legal Origins' *Quarterly Journal of Economics*. 107(4): 1193-1229.
- Keefer, Philip and Stephen Knack. 1997. 'Why Don't Poor Countries Catch Up? A Cross-National Test of an Institutional Explanation.' *Economic Inquiry*. 35(3): 590-601.
- Knack, Stephen and Philip Keefer. 1995. 'Institutions and Economic Performance: Cross-Country Tests Using Alternative Measures.' *Economics and Politics*. 7(3): 207-227.
- Lake, David A. and Matthew A. Baum. 2001. 'The Invisible Hand of Democracy.' *Comparative Political Studies*. 34(6): 587-621.
- Rodrik, Dani. 1997. 'Democracy and Economic Performance.' Harvard University Kennedy School of Government mimeo.
- Sachs, Jeffrey. 2006. *The End of Poverty: Economic Possibilities for Our Time*. New York, NY: Penguin Press.

Monday January 21 Martin Luther King Day (no class)

2. On the Origin of Institutions (two lectures)

This section reviews some of the leading explanations and recent theories on the origin of institutions.

Wednesday January 23

- Acemoglu, Daron. 2003. 'Why Not a Political Coase Theorem? Social Conflict, Commitment, and Politics.' *Journal of Comparative Economics*. 31(4): 620-652.
- *Acemoglu, Daron, Simon Johnson and James A. Robinson. 2006. 'Institutions as a Fundamental Cause of Long-Run Growth' in Philippe Aghion and Steven Durlauf. eds. *Handbook of Economic Growth*. Amsterdam: North Holland: 421-428. (available electronically through the Library website).
- Buchanan, James M. and Gordon Tullock. 2004. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Indianapolis, IN: Liberty Fund.
- *Coase, Ronald H. 1960. 'The Problem of Social Cost.' *Journal of Law and Economics*. 3: 1-44.
- Demsetz, Harold. 1967. 'Toward a Theory of Property Rights.' *American Economic Review*. 57(2): 347-359.
- Herbst, Jeffrey. 2000. *States and Power in Africa: Comparative Lessons in Authority and Control*. Princeton, N.J.: Princeton University Press.
- North, Douglass C. 1981. *Structure and Change in Economic History*. New York, N.Y.: W.W. Norton & Co.
- North, Douglass C. and Barry R. Weingast. 1989. 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England.' *Journal of Economic History*. 49(4): 803-832.
- Pevehouse, Jon C. 2005. *Democracy from Above. Regional Organizations and Democratization*. Cambridge, U.K.: Cambridge University Press.
- Tilly, Charles. 1985. 'War Making and State Making as Organized Crime' in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol. (eds.) *Bringing the State Back In*. Cambridge, U.K.: Cambridge University Press: 169-191.
- Tilly, Charles. 1992. *Coercion, Capital, and European States, AD 990-1992*. Cambridge, MA: Blackwell Publishing.

Monday January 28 (Special lecture by Andrea Vindigni)

- *Vindigni, Andrea and Davide Ticchi. 2003. 'Endogenous Constitutions.' *Institute for International Economic Studies Seminar Paper No. 726*
- Roberts, Kevin. 1999. 'Dynamic Voting in Clubs.' *STICERD Discussion Paper, TE 99/367*
- Barbera, Salvador and Matthew O. Jackson. 2004. 'Choosing How to Choose: Self-Stable Majority Rules and Constitutions.' *Quarterly Journal of Economics*. 119(3): 1011-1048.

3. Basic Model of (Democratic) Politics (five lectures)

This section first recognizes the general indeterminacy of the outcome of conflict resolution in democratic politics and then presents some standard solutions to this problem.

3.1 General Introduction, with an Application to Inequality and Redistribution (one lecture)

Wednesday January 30

- Alesina, Alberto and Dani Rodrik. 1994. 'Distributive Politics and Economic Growth.' *Quarterly Journal of Economics*. 109(2): 465-490.
- Austen-Smith, David and Jeffrey S. Banks. 2000. *Positive Political Theory I. Collective Preference*. Ann Arbor, MI: University of Michigan Press: 26-34.
- *Meltzer, Allan H. and Scott F. Richard. 1981. 'A Rational Theory of the Size of Government.' *Journal of Political Economy*. 89(5): 914-927.
- Persson, Torsten and Guido Tabellini. 1994. 'Is Inequality Harmful for Growth?' *American Economic Review*. 84(3): 600-621.
- Persson, Torsten and Guido Tabellini. 2002. *Political Economics: Explaining Economic Policy*. Cambridge, MA: MIT Press: 19-41, 374-377.
- *Roberts, Kevin W. S. 1977. 'Voting Over Income Tax Schedules.' *Journal of Public Economics*. 8(3): 329-340.

3.2 Lobbying (one lecture)

Monday February 4

- Becker, Gary S. 1983. 'A Theory of Competition Among Pressure Groups for Political Influence.' *Quarterly Journal of Economics*. 98(3): 371-400.
- *Grossman, Gene M. and Elhanan Helpman. 1994. 'Protection for Sale.' *American Economic Review*. 84(4): 833-850.
- Lohmann, Suzanne. 1995. 'Information, Access, and Contributions: A Signaling Model of Lobbying.' *Public Choice* 85(3-4): 267-284.
- *Peltzman, Sam. 1976. 'Toward a More General Theory of Regulation.' *Journal of Law and Economics*. 19(2): 211-240.
- Persson, Torsten and Guido Tabellini. 2002. *Political Economics: Explaining Economic Policy*. Cambridge, MA: MIT Press: 58-62, 171-175, 180-185.

3.3 Colonel Blotto Games (one lecture)

Wednesday February 6

- *Lizzeri, Alessandro and Nicola Persico. 2001. 'The Provision of Public Goods under Alternative Electoral Incentives.' *American Economic Review*. 91(1): 225-239.
- *Myerson, Roger B. 1993. 'Incentives to Cultivate Favored Minorities Under Alternative Electoral Systems.' *American Political Science Review*. 87(4): 856-869.

- *Powell, Robert. 2007. 'Allocating Defensive Resources with Private Information about Vulnerability.' *American Political Science Review*. 101(4): 799-809.

3.4 Collective Action (one lecture)

Monday February 11

- *Alesina, Alberto, Reza Baqir and William Easterly. 1999. 'Public Goods and Ethnic Divisions.' *Quarterly Journal of Economics*. 114(4): 1243-1284.
- Olson, Mancur. 1982. *The Rise and Decline of Nations: Economic Growth, Stagflation, and Economic Rigidities*. New Haven, CT: Yale University Press.
- Ray, Debraj and Joan Maria Estaban. 2001. 'Collective Action and the Group Size Paradox.' *American Political Science Review*. 95(3): 663-672.

3.5 Policy Compromise in Repeated Play (one lecture)

Wednesday February 13

- *Alesina, Alberto. 1988. 'Credibility and Policy Convergence in a Two-Party System with Rational Voters.' *American Economic Review*. 78(4): 796-805.
- *Dixit, Avinash, Gene M. Grossman and Faruk Gul. 2000. 'The Dynamics of Political Compromise.' *Journal of Political Economy*. 108(3): 531-568.
- Fudenberg, Drew and Jean Tirole. *Game Theory*. Cambridge, MA: The MIT Press: 145-156. (available electronically through the Library website).

4. Democratization (eight lectures)

This section reviews the various theories linking economic and social development to the emergence of democratic institutions.

4.1 Modernization Theory (one lecture)

Monday February 18

- *Acemoglu, Daron, Simon Johnson, James A. Robinson and Pierre Yared. 2007. 'Reevaluating the Modernization Hypothesis.' MIT mimeo.
- Acemoglu, Daron, Simon Johnson, James A. Robinson and Pierre Yared. 2007. 'Income and Democracy.' MIT mimeo.
- *Boix, Carles and Susan C. Stokes. 2003. 'Endogenous Democratization.' *World Politics*. 55(4): 517-549.
- Lipset, Seymour Martin. 1981. *Political Man: The Social Bases of Politics*. Expanded and Updated Edition. Baltimore, MD: The Johns Hopkins University Press.
- Przeworski, Adam, Michael E. Alvarez, Jose Antonio Cheibub and Fernando Limongi. 2000. *Democracy and Development. Political Institutions and Well-Being in the World, 1950-1990*. Cambridge, U.K.: Cambridge University Press.

4.2 Inequality, Social Conflict and Political Institutions (four lectures)

Wednesday February 20

- *Acemoglu, Daron and James A. Robinson. 2006. *Economic Origins of Dictatorship and Democracy*. Cambridge, U.K.: Cambridge University Press: chapters 4.4.1-4.4.2 and 5.

Monday February 25

- *Acemoglu, Daron and James A. Robinson. 2006. *Economic Origins of Dictatorship and Democracy*. Cambridge, U.K.: Cambridge University Press: chapters 6.1-6.8.

Wednesday February 27

- *Boix, Carles. 2003. *Democracy and Redistribution*. Cambridge, U.K.: Cambridge University Press.

Monday March 3 (Special lecture by Christian Houle)

- *Houle, Christian. 2008. 'Inequality and Democracy.' University of Rochester mimeo.

4.3 Resource Curse (one lecture)

Wednesday March 5

- Debs, Alexandre. 2007. 'On the Economic Origins of Dictatorship and Democracy: The Case of Russia.' University of Rochester Mimeo.
- *Dunning, Thad. 2007. *Crude Democracy: Natural Resource Wealth and Political Regimes*. Yale University Mimeo: chapters 1, 3 and 7.
- *Fish, M. Steven. 2005. *Democracy Derailed in Russia: The Failure of Open Politics*. Cambridge, U.K.: Cambridge University Press: chapter 5.
- Krusel, Per and Jose-Victor Rios-Rull. 1996. 'Vested Interests in a Positive Theory of Stagnation and Growth.' *Review of Economic Studies*. 63(2): 301-329.
- Ross, Michael. 2001. 'Does Oil Hinder Democracy?' *World Politics*. 53(3): 325-361.

Monday March 10, Wednesday March 12 Spring break (no class)

4.4 Division within the Elite (one lecture)

Monday March 17

- Acemoglu, Daron and James A. Robinson. 2000. 'Why did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective.' *Quarterly Journal of Economics*. 115(4): 1167-1199.
- Debs, Alexandre. 2007. 'On the Economic Origins of Dictatorship and Democracy: The Case of China.' University of Rochester Mimeo.

- *Lizzeri, Alessandro and Nicola Persico. 2004. 'Why the Elites Extend the Suffrage? Democracy and the Scope of Government, with an Application to Britain's "Age of Reform" .' *Quarterly Journal of Economics*. 119(2): 707-765.
- Llavador, Humberto and Robert J. Oxoby. 2005. 'Partisan Competition, Growth, and the Franchise.' *Quarterly Journal of Economics*. 120(3): 1155-1189.
- O'Donnell, Guillermo and Philippe C. Schmitter. 1986. *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies*. Baltimore, MD: The Johns Hopkins University Press

4.5 Democratization by Regime Type (one lecture)

Wednesday March 19

- Huntington, Samuel P. 1991. *The Third Wave: Democratization in the Late Twentieth Century*. Norman and London: University of Oklahoma Press. esp. chapters 1-3.
- *Geddes, Barbara. 1999. 'What Do We Know About Democratization After Twenty Years?' *Annual Review of Political Science*. 2: 115-144.
- Magaloni, Beatriz. 2007. 'The Comparative Logic of Autocratic Survival.' Stanford University mimeo.

5. The Political Economy of Dictatorship (six lectures)

5.1 A General Introduction (one lecture)

Monday March 24

- Chehabi, H.E. and Juan J. Linz. eds. 1998. *Sultanistic Regimes*. Baltimore, MD: The Johns Hopkins University Press.
- *McGuire, Martin C. and Mancur Olson, Jr. 1996. 'The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force.' *Journal of Economic Literature*. 34(1): 72-96.
- Tullock, Gordon. 1987. *Autocracy*. Boston, MA: Kluwer Academic Publishers.
- *Weber, Max. 1968. *Economy and Society: An Outline of Interpretive Sociology*. edited by Guenther Roth and Claus Wittlich. New York, NY: Bedminster Press: chapters XII-XIII.
- Wintrobe, Ronald. 1998. *The Political Economy of Dictatorship*. Cambridge, U.K.: Cambridge University Press. chapters 1 - 5.

5.2 The Logic of Divide-and-Rule (one lecture)

Wednesday March 26

- Acemoglu, Daron, James A. Robinson and Thierry Verdier. 2004. 'Kleptocracy and Divide-and-Rule: A Model of Personal Rule.' Alfred Marshall Lecture, *Journal of the European Economic Association*, April-May 2(2-3): 162-192.
- *Padro-i-Miquel, Gerard. 2007. 'The Control of Politicians in Divided Societies: The Politics of Fear.' *Review of Economic Studies*, 74(4): 1259-1274.
- *Debs, Alexandre. 2007. 'Divide-and-Rule and the Media.' University of Rochester mimeo.

5.3 Commitment Problems (one lecture)

Monday March 31

- Myerson, Roger B. 2006. 'Leadership, Trust, and Constitutions.' University of Chicago Mimeo.
- *Svolik, Milan. 2006. 'A Theory of Government Dynamics in Authoritarian Regimes.' University of Illinois at Urbana-Champaign Mimeo.
- Paltseva, Elena. 2006. 'Autocracy, Devolution and Growth.' Stockholm School of Economics Mimeo.

5.4 The Internal Organization of Dictatorships (one lecture)

Wednesday April 2

- Acemoglu, Daron, Georgy Egorov and Konstantin Sonin. 2007. 'Coalition Formation in Nondemocracies.' MIT mimeo.
- Acemoglu, Daron, Davide Ticchi and Andrea Vindigni. 2007. 'A Theory of Military Dictatorships.' MIT mimeo.
- *Debs, Alexandre. 2007. 'Political Strength and Economic Efficiency in a Multi-Agent State.' University of Rochester Mimeo.
- Egorov, Georgy and Konstantin Sonin. 2006. 'Dictators and their Viziers: Endogenizing the Loyalty-Competence Trade-off.' Available at SSRN: <http://ssrn.com/abstract=630503>
- Lorentzen, Peter. 2006. 'Regularized Rioting: The Strategic Toleration of Public Protest in China.' University of California at Berkeley Mimeo.

5.5 Inefficient Policies (two lectures)

Monday April 7

- Coate, Stephen and Stephen Morris. 1995. 'On the Form of Transfers to Special Interests.' *Journal of Political Economy*, 103(6): 1210-1235.
- *Debs, Alexandre. 2007. 'The Wheel of Fortune: Agency Problems in Dictatorships.' University of Rochester Mimeo.
- Cho, In-Koo and David M. Kreps. 1987. 'Signaling Games and Stable Equilibria.' *Quarterly Journal of Economics*, 102(2): 179-222.
- Robinson, James A. and Ragnar Torvik. 2005. 'White Elephants.' *Journal of Public Economics* 89(2-3): 197-210.

Wednesday April 9

- *Banerjee, Abhijit. 1997. 'A Theory of Misgovernance.' *Quarterly Journal of Economics*. 112(4): 1289-1332.
- Mauro, Paulo. 1995. 'Corruption and Growth.' *Quarterly Journal of Economics*. 110(3): 681-713.
- Shleifer, Andrei and Robert Vishny. 1992. 'Corruption.' *Quarterly Journal of Economics*. 108(3): 599-617.

6. Institutional Change and Policy Persistence (one lecture)

Monday April 14

- *Acemoglu, Daron and James A. Robinson. 2007. 'Persistence of Power, Elites and Institutions.' MIT Mimeo.
- Acemoglu, Daron, Maria Angelica Batista, Pablo Querubin and James A. Robinson. 2007. 'Economic and Political Inequality in Development: The Case of Cundinamarca, Colombia.' MIT Mimeo.
- Acemoglu, Daron, Davide Ticchi and Andrea Vindigni. 2007. 'Emergence and Persistence of Inefficient States.' MIT Mimeo.
- Michels, Robert. 1962 [1911]. *Political Parties. A Sociological Study of the Oligarchic Tendencies of Modern Democracy*. New York: The Free Press.

7. Informal Institutions (one lecture)

Wednesday April 16

- Ellickson, Robert C. 1994. *Order Without Law: How Neighbors Settle Disputes*. Cambridge, MA: Harvard University Press.
- *Greif, Avner, Paul Milgrom, and Barry Weingast. 1994. 'Coordination, Commitment and Enforcement: The Case of the Merchant Guild.' *Journal of Political Economy*. 102(4): 745-776.

8. The Political Economy of War (two lectures)

Monday April 21

- Maoz, Zeev and Bruce Russett. 1993. 'Normative and Structural Causes of Democratic Peace, 1946-1986.' *American Political Science Review*. 87(3): 624-638.
- *Bueno de Mesquita, Bruce, James D. Morrow, Randolph M. Siverson and Alastair Smith. 1999. 'An Institutional Explanation of the Democratic Peace.' *American Political Science Review*. 93(4): 791-807.
- Kant, Immanuel. 2006 [1795]. 'Toward Perpetual Peace: A Philosophical Sketch' in Pauline Kleingeld (ed.) *Toward Perpetual Peace and Other Writings on Politics, Peace, and History*. New Haven: Yale University Press: 67-109. available at <http://site.ebrary.com/lib/rochester/Doc?id=10169960>
- *Ray, James Lee. 1998. 'Does Democracy Cause Peace?' *Annual Review of Political Science*. 1: 27-46.

Wednesday April 23

- Baliga, Sandeep, David O. Lucca and Tomas Sjoström. 2007. 'Domestic Political Survival and International Conflict: Is Democracy Good for Peace?' Northwestern University mimeo.
- *Debs, Alexandre and Hein Goemans. 2008. 'On War, Regime Type, and the Survival of Leaders.' University of Rochester Mimeo.
- Levy, Gilat, and Ronny Razin. 2004. 'It Takes Two: An Explanation of the Democratic Peace.' *Journal of the European Economic Association*. 2(1): 1-29.
- Patty, John W. and Roberto A. Weber. 2006. 'Agreeing to Fight: An Explanation of the Democratic Peace.' *Politics, Philosophy & Economics*. 5(3): 305-320.

Topic Presentations (two lectures)

Monday April 28

Wednesday April 30

FINAL EXAM

Date TBD during exam week (May 5 to May 12)

Schedule of Assignments

Problem Sets

Problem set 1: Handed out on January 23. Due February 4.

Problem set 2: Handed out on February 4. Due February 18.

Problem set 3: Handed out on February 18. Due March 5.

Problem set 4: Handed out on March 17. Due March 31.

Problem set 5: Handed out on March 31. Due April 28.

Topic Reviews

Topic Review 1: List of 3 papers due February 25. Review due March 19.

Topic Review 2: List of 3 papers due April 2. Review due April 14.

Topic Presentation and Final Exam (see above).