

Institutions

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Description

What are institutions? Do they matter for economic outcomes? If so, why? And if they matter, then what determines "good" institutions?

In this course we will go through the main lessons learnt from the last 15 years of research, which have witnessed an explosion of empirical and theoretical work on institutions that revolutionized several fields of economics.

The journey will start with a macro perspective: do institutions matter for economic growth? It will continue with the distinction between political institutions (e.g., elections) and economic institutions (e.g., property rights) and the interplay between the two.

We will then adopt a more micro perspective: which institutional features matter? First, we will review the evidence concerning the effect of economic institutions such as property rights and courts contract enforcing contracts. Second, we will review the evidence concerning political institutions and how they shape the selection and incentives in office of politicians. Third, we will review the evidence about bureaucrats, i.e., those civil servants who implement policy-making but are not elected (differently from politicians) and are often invisible to citizens (differently from, say, teachers or doctors).

Finally, we will return to the macro perspective: what determines the breakdown of the state and the emergence of conflict? What do we know about the long-term consequences of conflict? Can we explain simultaneously the economic choices of the state (such as public service delivery and investments in legal and fiscal capacity) as well as political choices regarding the use of violence, which in turn determine peace, repression or conflict?

The course will be based primarily on the critical review of empirical work guided by simple economic theory.

Course Structure

The course covers around 12-13 topics in 16 weeks, i.e., around two lectures per topics. Each topic will be covered using lecture notes, discussion in class, 1-2 mandatory articles specified here in the syllabus. Any additional article covered in class will not be mandatory reading and will be listed in a separate document that I will update regularly.

Knowledge of the basic material will be tested with few (around three) short tests in class.

Since the articles are primarily empirical, I will devote a couple of lectures to illustrate natural experiments and methods like Regression Discontinuity Designs (RDD). In the same spirit, I will ask students to "play" with the replication data of two of the articles covered in class by generating simple descriptive statistics, replicate one of the regression estimations in the paper together with a couple of modifications, to see in practice how results change as you change the specification.

Since one of the main aims of the course is to inspire students to develop their own research ideas, the midterm will be in the form of a research proposal (2-3 pages only) to be completed at home. Students can later develop their research ideas in a mini essay that they will present in front of their classmates.

Course Evaluation

The successful student will have to demonstrate knowledge of state of the art on the research of institutions. The grade will be based as follows:

- 10% for participation in class;
- 29% for quizzes in class and home assignments;
- 16% research proposal;
- 45% final essay (or final test, see details below).
- 10% bonus presentation.

All components of the final grade are non-blocking.

Students are free to hand in the research proposal any time before the 20th October. It should be 2-3 pages long and it should be about institutions. The proposal should include research question, motivation and research design. For empirical projects, it should include a description of the data that the student wants to use (do they exist? Are they publicly available? Do they include the indicators needed for the project?). Theory projects are also possible as long as this is discussed in advance with me.

The research proposal is meant to be the starting point for the final essay, which could be about 10 pages long (shorter essays are also fine). Relative to the proposal, it should include also an analysis of the data, a discussion of the results as well as advantages and limitations of the study.

3rd year students are welcome to use this as the starting point for their dissertation.

4th year students are welcome to use some of the material of their dissertation project as long as: i) they write about institutions, ii) the overlap with their dissertation is only partial, and iii) they contact me in advance to make sure that ii) is satisfied. The deadline for the final project is the weekend before the last class.

Students are encouraged (but not obliged) to present their project in front of the class before the end of the course. That will make them eligible for a 10 percent bonus presentation.

Students whose research proposal turns out to be impractical or infeasible can replace the final project with a standard final test in class. In this case, students are encouraged (but not obliged) to present a paper on institutions in front of the class (as long as there is time during the course). The deadline for switching from the final project to the standard final test is 10 days before the last class.

Tests in class. These will be short tests with either multiple answer questions or short open questions.

The dates will be fixed in advance during the first two weeks of the course. The preliminary plan is to have 3 tests of about 20-30 minutes each throughout the course and keep the grade of the best two.

Home assignments. These will be short assignments aiming to let students familiarize with simple data work. This could be generating descriptive statistics or replicating the main regression results of a published paper and see how the results change with (apparently) minor modifications of the econometric specification. The preliminary plan is to have 2 home assignments throughout the course.

In case of make-up, the student and the teacher agree on a reasonable time to implement the set of improvements to the research project (a rough benchmark could be 3 weeks), otherwise the student can switch to a standard test in class. In both cases, the final grade for the make-up cannot be higher than 7.

Course Material (preliminary)

The course material is composed of i) my lecture notes, ii) mandatory articles (with *); iii) optional articles (without *). I selected 15 mandatory articles (i.e., less than one paper per week) to avoid excessive workload. Students do not need to read non-mandatory articles as long as they attend the

lectures and listen actively to the discussion in class.

Part I: Introduction and macro perspective

Democracy and democratization

*Aidt, Toke and Raphael Franck. 2015. "Democratization Under the Threat of Revolution: Evidence from the Great Reform Act of 1832", *Econometrica*, 83(2):505-547.

Do institutions affect political preferences?

*Alesina, Alberto, and Nicola Fuchs-Schündeln. 2007. "Goodbye Lenin (or Not?): The Effect of Communism on People's Preferences." *American Economic Review*, 97 (4): 1507-1528.

*Nicola Fuchs-Schündeln and Matthias Schündeln, "On the endogeneity of political preferences: Evidence from individual experience with democracy", *Science* MAR 2015 : 1145-1148

Part II: Unpacking economic institutions

Property rights

* Hornbeck, R. (2010). "Barbed Wire: Property Rights and Agricultural Development*." *The Quarterly Journal of Economics* 125(2): 767-810.

Di Tella, R., S. Galiani and E. Schargrodsky (2007). "The Formation of Beliefs: Evidence from the Allocation of Land Titles to Squatters*." *The Quarterly Journal of Economics* 122(1): 209-241.

Judiciary/ Law and Order

* Jacopo Ponticelli, Leonardo S. Alencar, Court Enforcement, Bank Loans, and Firm Investment: Evidence from a Bankruptcy Reform in Brazil , *The Quarterly Journal of Economics*, Volume 131, Issue 3, August 2016, Pages 1365–1413

Part III: political institutions and politicians

Electoral rules and form of government

Rents from office, electoral fraud and vote-buying

*Fisman, R., F. Schulz and V. Vig (2014). "The Private Returns to Public Office." *Journal of Political Economy* 122(4): 806-862.

Callen, M. and J. D. Long (2015). "Institutional Corruption and Election Fraud: Evidence from a Field Experiment in Afghanistan." *American Economic Review* 105(1): 354-381.

*Frederico, F. and S. Laura (2012). "Vote-Buying and Reciprocity." *Econometrica* 80(2): 863-881.

Politicians' selection and incentives in office

Ferraz, C. and F. Finan (2008). "Exposing Corrupt Politicians: The Effects of Brazil's Publicly Released Audits on Electoral Outcomes*." *The Quarterly Journal of Economics* 123(2): 703-745.

Dal Bó, E., F. Finan, O. Folke, T. Persson and J. Rickne (2017). "Who Becomes A Politician?" *The Quarterly Journal of Economics* 132(4): 1877-1914.

*Ferraz, C. and F. Finan (2011). "Electoral Accountability and Corruption: Evidence from the Audits of Local Governments." *American Economic Review* 101(4): 1274-1311.

Part IV: institutions and the (invisible) bureaucracy

Corruption vs bureaucrats' mismanagement

Olken, B. A. (2006). "Corruption and the costs of redistribution: Micro evidence from Indonesia." *Journal of Public Economics* 90(4): 853-870.

* Bandiera, O., A. Prat and T. Valletti (2009). "Active and Passive Waste in Government Spending: Evidence from a Policy Experiment." *American Economic Review* 99(4): 1278-1308.

Bureaucrats: they matter, but they are not elected

Hanna, R. and S.-Y. Wang (2017). "Dishonesty and Selection into Public Service: Evidence from India." *American Economic Journal: Economic Policy* 9(3): 262-290.

*Bertrand, Marianne, Robin Burgess, Arunish Chawla and Guo Xu (2017). "The Glittering Prizes: Career Incentives and Bureaucrat Performance", mimeo.

*Khan, A. Q., A. I. Khwaja and B. A. Olken (2016). "Tax Farming Redux: Experimental Evidence on Performance Pay for Tax Collectors *." *The Quarterly Journal of Economics* 131(1): 219-271.

Khan, A. Q., A. I. Khwaja and B. A. Olken (2018). "Making Moves Matter: Experimental Evidence on Incentivizing Bureaucrats through Performance-Based Postings," mimeo.

Imran, R. and R. Daniel (2018). "Management of Bureaucrats and Public Service Delivery: Evidence from the Nigerian Civil Service." *The Economic Journal* 128(608): 413-446.

Gulzar, S. and B. J. Pasquale (2016). "Politicians, Bureaucrats, and Development: Evidence from India." *American Political Science Review* 111(1): 162-183.

Part V: back to the macro perspective

Citizens' collective action problem

Manacorda, Marco, and Andrea Tesei. 2018. "Liberation Technology: Mobile Phones and Political Mobilization in Africa", mimeo.

*King, G., J. Pan and M. E. Roberts (2013). "How Censorship in China Allows Government Criticism but Silences Collective Expression." *American Political Science Review* 107(2): 326-343.

Inst. Persistence vs Change

* Drago, Francesco, Marianna Belloc and Roberto Galbiati (forthcoming), "Earthquakes, Religion, and Transition to Self-government in Italian Cities," *Quarterly Journal of Economics*, 2016, 131(4), 1875-1926

Emergence of Institutions

* Mayshar, Moav, Neeman and Pascali (2018) "Cereals and Appropriability", mimeo.

* De La Sierra, Raul (2017) "On the Origins of the State: Stationary Bandits and Taxation in Eastern Congo," mimeo