

Institutions

Module 2, 2021-2022

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Course information

Course Website: see my.nes

Office Hours: TBA

Class Time: TBA

Room Number: TBA

Course description

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

The journey will start with a macro perspective: economic outcomes are influenced by economic institutions, which are determined by political institutions. But what are good political institutions, and why some countries have them, while others do not?

We will answer this question in three steps. First, we will consider political institutions as «democracy» or «autocracy». This simplification, while apparently extreme, provides us with an insightful model of democratization that we can test using micro-data from the UK. Second, we will consider how States originate, why they emerge earlier in some areas than in others, and whether/when they originate as benevolent as opposed to predatory entities. Third, we will consider how political institutions work in divided societies. This will let us differentiate non-democratic societies and provide us with some insight on why some are more economically successful than others.

Fourth, we will discuss how States consolidate, which is related to the State expansion in fiscal and legal capacity as well to nation building policies. Here culture plays a big role, so we will spend some time defining culture and discussing how it evolves. We will then review the evidence on how culture shapes the State, and how the States shapes political preferences through nation building policies.

We will then take a closer look at State actors. While you may be familiar with politicians (i.e., elected civil servants), you might know less about bureaucrats (i.e., non-elected civil servants). Do they matter? If so, how are they selected? What kind of incentives do they have once in office?

Finally, we will consider State repression as well as open conflict, i.e., the breakdown of the State. What determines the onset of conflict? What determines its intensity? Why do people participate in conflict, since none of them can individually expect to influence the outcome? What happens after the conflict is finished? Here the challenge is to re-integrate ex combatants in the society and to heal the relationship between the two sides that did violence on each other.

The course can of course be expanded in several directions, so during the first two weeks I will gather student preferences for additional topics (in case we have time for that).

Course Structure

The course covers around 6 topics in 7 weeks, i.e., around 2 lectures per topics. Each topic will be covered using lecture notes, discussions in class, 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 three short tests in class. Each test lasts around 20-30 minutes and typically asks to summarize one mandatory paper and answers 2-3 short questions. I will provide more detailed instructions in class. The timing of the tests will be announced during the first two weeks of the course.

Since one of the main aims of the course is to inspire students to develop their own research ideas, students are free to replace one of the tests in class with a research proposal (2-3 pages) to be completed at home (and sent by email to me before the test). Students with promising proposals can replace the final exam with a mini essay (max 10 pages) that they can present in front of their class mates. Proposals should be centered on an institutional economics topic and can be related, but cannot completely overlap, with their dissertation projects. Any overlap should be declared and discussed with me in advance to make sure it is not too substantial.

If the circumstances do not allow a standard offline course format, I will consider whether alternative course evaluations. These changes, if any, will be announced during the first two weeks of the course.

Course requirements, grading, and attendance policies

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;
- 27% for quizzes in class;
- 63% final test (or final essay).

All components of the final grade are non-blocking.

The timing of the class quizzes will be announced in advance.

Students are free to hand in the research proposal any time before one of the class quizzes.

Students whose research proposal turns out to be impractical or infeasible can replace the final project with a standard final test in class. The deadline for switching from the final project to the standard final test is 10 days before the last class (or the dates of the last quiz, if later).

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 contents

The course material is composed of i) my lecture notes, ii) mandatory articles; iii) optional articles.

I selected 14 mandatory articles (i.e., one paper per lecture) to avoid excessive workload.

Optional articles will be listed in a separate document. Students do not need to read non-mandatory articles as long as they attend the lectures and listen actively to the discussion in class.

1) Autocracy, Democracy and Democratization

S., Aidt Toke, and Franck Raphaël. 2015. "Democratization Under the Threat of Revolution: Evidence From the Great Reform Act of 1832." *Econometrica* 83 (2):505-547. doi: doi:10.3982/ECTA11484.

2) State Institutions: Origins and Evolution

Mayshar, J, O. Moav, and L. Pascali. 2020. «The Origin of the State: Land Productivity or Appropriability?» mimeo (available on L. Pascali's website).

Sierra, Raúl Sánchez de la. 2020. "On the Origins of the State: Stationary Bandits and Taxation in Eastern Congo." *Journal of Political Economy* 128 (1):32-74. doi: 10.1086/703989.

Weigel, Jonathan L . 2020. "The Participation Dividend of Taxation: How Citizens in Congo Engage More with the State When it Tries to Tax Them," *The Quarterly Journal of Economics*, 13(4): 1849–1903.

3) Political Institutions in Divided Societies

This topic will be covered with an overview of the literature. See document with additional readings.

4) Persistence may not imply Determinism: Institutional Change and Role of Leaders

Michalopoulos, S. and Papaioannou, E. (2013), Pre-Colonial Ethnic Institutions and Contemporary African Development. *Econometrica*, 81: 113-152. <https://doi.org/10.3982/ECTA9613>

Jones, Benjamin F., and Benjamin A. Olken. 2009. "Hit or Miss? The Effect of Assassinations on Institutions and War." *American Economic Journal: Macroeconomics*, 1 (2): 55-87.

5) Culture, Interplay with Political Institutions and the Consolidation of the State

Giuliano, Paola, and Nathan Nunn. Forthcoming. "Understanding Cultural Persistence and Change." *Review of Economic Studies*.

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

Bazzi, Samuel, Arya Gaduh, Alexander D. Rothenberg, and Maisy Wong. 2019. "Unity in Diversity? How Intergroup Contact Can Foster Nation Building." *American Economic Review* 109 (11):3978-4025.

Bandiera, Oriana, Myra Mohnen, Imran Rasul, and Martina Viarengo. "Nation-building Through Compulsory Schooling during the Age of Mass Migration." *The Economic Journal*

6) State actors: Bureaucrats

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.

Bertrand, Marianne, Robin Burgess, Arunish Chawla, and Guo Xu. 2019. "The Glittering Prizes: Career Incentives and Bureaucrat Performance." *The Review of Economic Studies* 87 (2):626-655.

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

7) Breakdown of the State: Conflict

Michalopoulos, Stelios, and Elias Papaioannou. 2016. "The Long-Run Effects of the Scramble for Africa." *American Economic Review*, 106 (7): 1802-48.

Description of course methodology

The course is based on lectures that involve active participation of students in discussion. Depending on the pace of the lectures and the interest of the students, the course will cover 1 or 2 of the extra topics listed.

Sample tasks for course evaluation

How do States originate? Discuss and compare Mayshar et al (2020) for the entire world with De La Sierra (2020) for the case of Congo.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated. For all assignments, exams and attendance, the NES academic integrity policy applies. Students should consult the NES Student Handbook for further details.