

Milestone 1

```
#| echo: false
#| warning: false
#| message: false
#| fig-cap: "Liberal Democracy Index by Country (2018)"
#| fig-align: center

library(ggplot2)
library(dplyr)
```

Warning: package 'dplyr' was built under R version 4.3.3

Attaching package: 'dplyr'

The following objects are masked from 'package:stats':

filter, lag

The following objects are masked from 'package:base':

intersect, setdiff, setequal, union

```
library(rnaturalearth)
```

Warning: package 'rnaturalearth' was built under R version 4.3.3

```
library(sf)
```

Warning: package 'sf' was built under R version 4.3.3

Linking to GEOS 3.11.2, GDAL 3.8.2, PROJ 9.3.1; sf_use_s2() is TRUE

```
library(readr)
```

Warning: package 'readr' was built under R version 4.3.3

```
library(here)
```

Warning: package 'here' was built under R version 4.3.3

here() starts at C:/Users/mvideo/Documents/regime-changes-and-economic-preferences

```
# Load world map
world <- ne_countries(scale = "medium", returnclass = "sf")

# Load V-Dem data
vdem_data <- vdemdata::vdem

# Filter for 2018 and select relevant columns
vdem_2018 <- vdem_data %>%
  filter(year == 2018) %>%
  select(country_name, country_text_id, v2x_libdem) %>%
  rename(iso_a3 = country_text_id)

# Merge with world map data
world_data <- left_join(world, vdem_2018, by = "iso_a3")

# Plot the map
world_map <- ggplot(data = world_data) +
  geom_sf(aes(fill = v2x_libdem), color = "gray30", size = 0.1) +
  scale_fill_viridis_c(name = "Liberal Democracy Index", na.value = "lightgray") +
  labs(
    title = "Liberal Democracy Index by Country (2018)",
    caption = "Data: V-Dem v14, World map: Natural Earth"
  ) +
```

```
theme_minimal(base_size = 14)
```

Regime Changes and Economic Preferences: Global Evidence

Motivation

Economic preferences, especially trust at the individual level, are crucial for economic growth and vary widely across countries (Algan and Cahuc (2013)). Research has also shown, that political systems can shape political preferences (Fuchs-Schündeln and Schündeln (2015)); however, their impact on economic preferences remains incompletely understood. The initial hypothesis for this paper was that attained education might be influencing economic preferences. However, given that autocratic regimes frequently implement educational reforms as a homogenization tool to preserve their interests and maintain power (Alesina, Giuliano, and Reich (2021)), education can function as a mechanism through which political institutions influence economic preferences of individuals. This is why we will be interested in examining the causal link of regime changes on economic preferences.

Research question

What is the effect of regime changes on economic preferences of individuals? More precisely, we are interested in understanding the dynamics of economic preferences of individuals who experienced regime changes in their countries.

Literature overview

The motivation for this study stems out of the existing literature on the relationship between political regime changes and economic preferences. The study from Algan and Cahuc (2013) documents trust at the individual level as a causal determinant of economic growth across different countries.

Research from Friehe and Pannenberg (2020) investigates how political systems shape individual's economic preferences, utilizing the German separation and later reunification as a natural experiment. Apart from this, the researchers also adopt a geographic **regression discontinuity design** with border segment fixed effects to examine the causal relationship. The time preferences are measured using survey questions from the German Socio-Economic Panel (SOEP) in 2008 and 2013. This dataset operationalizes present bias through an 11-point impulsivity scale and patience through a similar 11-point scale, both validated against experimental data. Their findings reveal that former GDR residents exhibit significantly lower present bias

compared to their FRG counterparts, while patience levels remain statistically indistinguishable. We would like to extend the analysis and investigate whether these institutionally-shaped preferences would be present also in a global dataset and across different social contexts.

Similar evidence we can also find in the paper Fuchs-Schündeln and Schündeln (2015), where the authors investigate, how political preferences (especially support for democracy), are shaped by individual experiences with democratic political systems. The authors make use of a within-country variation at the individual-level observations from 104 countries between 1994 and 2013. Their empirical strategy employs **country-year fixed effects** to account for all country-level unobservables specific to a given year, like current institutions, ruling parties or economic conditions. The independent variable is “democratic capital”, which is a measure of accumulated experience with democracy that depreciates at a rate of 2% annually. The findings reveal that preferences for democracy increase significantly with longer exposure to democratic rule. This relationship holds across different measures of support for democracy and different datasets (the authors use data from the World Values Survey and Afrobarometer). The magnitude of the effects is substantial: approximately 8,5 years of continuous democratic experience support for democracy by the same amount as moving from primary to secondary education. These results are robust to various specifications, controlling for age effects and alternative ways of measuring democratic periods. The findings of this paper suggest, that popular support for democratic institutions requires time to develop.

Data description

At this point, we have 3 datasets, which we are working with.

The variables containing economic preferences of individuals will be taken from the Global Preference Survey (GPS) Falk et al. (2018) dataset, where we can find numerical evaluation of **risk-taking, patience, positive and negative reciprocity, altruism, trust and math skills** of about **80 000 representative individuals** from **76 countries**. The survey data was collected in 2012 and apart from the economic preferences data provide information about each individual’s **country and region of residence, language, age and gender**.

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