Among those who emphasise geography as a source of differences in economic growth, some highlight its impact through institutional formation. Resorting to the relevant literature, provide a critical overview of these theories, highlighting their similarities and differences. (20 marks)

* Acemoglu & Robinson (2001): use death rates of survivors from inhospitable living conditions as an instrument to measure how institutions impact population growth.
  + The settler population density matters much more than the country of origin.
* Engermann & Sokoloff (2000): use differences in cereal/sugar arable conditions to argue that factor endowments matter more for forming institutions than settler population density – those factor endowments which more easily fostered a middle class resulted in greater scope for property rights and institutional protection, which then resulted in greater opportunities to exploit industrialisation. (Greater proportion of society can be involved in saving, investment, and consumption).
* Reversal of fortune:
  + Highest population density areas fared worse after industrialisation – lower population density areas fared better.
    - Higher population density led to European colonists enslaving native populations, most clearly captured by the Encomienda system. This fact is pointed out by Acemoglu and Robinson in Why Nations Fail.
    - Meanwhile, areas with lower population density could not enslave natives in the same way – more European settlers were necessary and they had to work the land themselves.
      * Ruling class of colonialists did attempt to enslave European settlers, but they failed because there was a very high opportunity cost for the settlers since it was very easy to leave the colonies into open land, as opposed to European fiefs where escape was complicated.
      * As a result, settlers were afforded stronger rights than natives in other parts of America.
        + Import of West African slaves was not fully developed when North American colonialism began, making European settlers even more valuable.
    - The result is that areas with initially high population density, such as Central and South Andean America led to societies with very restricted civil liberties, and where property rights of almost the entire population were not respected. The opposite was true where population began sparser and the ensuing European settlers used their leverage to bargain for concessions.

The debate on the role of inequality in economic growth posits different effects and potential mechanisms. Which, if any, of these theories are backed by empirical evidence from the 21st Century? Answer relying on the relevant literature. (20 marks)

Incentive channel,

* Inequality of effort investigated by Marrero & Rodriguez (2013)
  + Positive relationship between inequality of effort and growth.
  + Negative relationship between inequality of effort and growth.

Lower inequality lower growth

* Ostry et al. (2014)
  + Diagram:
    - Market inequality Net inequality (directly)
    - Market inequality Redistribution (empirical result)
    - Net inequality Growth (Effects to human capital, political instability, savings channel, incentive channel)
    - Redistribution Net inequality (directly)
    - Redistribution Growth (Leaky bucket effects, e.g., admin costs)
  + So, redistribution can reduce growth directly, but can indirectly improve growth by reducing net inequality.
  + Regression results find that redistribution has no significant effect (measured as Gini coefficient before and after transfer periods) whereas net inequality has a negative coefficient on growth.
* Easterly (2007)
  + Uses cereal and sugar growing fields as a control – these would affect growth after the industrial revolution only indirectly, either through inequality or institutional changes.
    - Areas that had more sugar plantations tended to import slaves, increasing future inequality, and growth during the industrial period was harmed because of this inequality.
  + Too many confounders in my opinion 🡪 since sugar was a cash crop, this would incentivise less diversification than relatively cheaper cereal crops. A different production base may make industrialisation also easier.
  + Also, there is limited applicability 🡪 is inequality even important then if we are not expecting another large social transformation that will be influenced by it? I.e., is inequality only important for its potential, but as-yet-undefined, effects?