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| Tutorial 4(Week starting on 21-mar-2022) |

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| **Objectives**   * Study the concept of institutions * Think about the causes of economic growth   **Working materials**   * **Acemoglu, D., S. Johnson, & J. A. Robinson [2005]** “Institutions as a Fundamental Cause of Long-run Growth”, en P. Aghion & S. Durlauf (eds.); Handbook of Econ. Growth –Volume 1A– (Elsevier), Ch. 6, 385-472, available on <http://economics.mit.edu/files/4469>, **ONLY** sect. 1 to 3, 388-407 |

**Exercise guide**

The exercises marked with an asterisk (\*) are compulsory and must be submitted to the virtual campus **before 12.00 on Wednesday 30th March**. To the mark obtained on the evaluation of this assignment,**0.05 points will be subtracted for each minute late**. Consult the course program with regards to the formalities of the presentation.

1. Explain in just a few words what question Acemoglu et al. [2005] chapter 6 is trying to answer and how they attempt to do so. What are the main conclusions?
2. (\*) What is an institution? Why are the economic institutions particularly important? What are the authors trying to express when they say institutions are *endogenous*?
3. How do “de jure” and “de facto” power differentiate? What determines that a certain power belongs to one or the other?
4. (\*) Explain, in your own words, the model described in the figure from page 392.
5. According to the authors, what are the two main sources of persistency in the model they describe?
6. What are the three theories on the fundamental causes of economic growth?
7. Describe Figure 1 in detail. What is the argument that the authors are trying to make with this graph?
8. This chapter takes one of the biggest questions in economics that has bogged it down inconclusively for decades: why are some countries poor while others are not? They look at the ways it had been studied as a product of factor accumulation, innovation or education, and invoke North’s proposition that those are not the causes of growth but instead the consequences of it. Again following North, they contend it’s actually institutions that are the main drivers of growth therefore, they conclude, better institutions, namely those ensuring property rights and relatively equal access to resources should lead directly to economic growth, as explained in their model.
9. In North’s simple terms, institutions are the rules of the game, and by that he refers to the underlying mechanisms accepted by members of a society that, ideally, allow for the smooth functioning of the interactions taking place in that society. They choose to focus on economic institutions probably because they themselves are economists and are biased, but mainly because these do seem to be trendsetters in terms of what might be causing growth, meaning that if you have well instituted property rights, for example, you will have, in turn, incentives to invest and therefore the chance for capital accumulation. And it’s mostly that very society, so goes the argument, that shapes the institutions that in turn determine the way that that society works, which is why he describes them as “endogenous.”
10. On the one hand de jure power comes from political institutions at face value and can look like a democracy with decentralized power or perhaps a monarchy with all power concentrated in one person. Meaning that political institutions originate de jure political power, constraining and determining the incentives of the actors and how power is allocated. De facto political power, on the other hand, comes from the distribution of resources, so a group which holds most resources can access institutions in its own terms and modify them, and that can be through military might or influence, for example. It is a concentration of resources that makes the individuals who bear it capable of imposing their wishes on society; economic resources determine their ability to use political institutions in their favor.
11. We understand, from the figure, that at any given time, there will be certain political institutions in a society (they might monarchical or democratic) and a certain distribution of resources (a lord might have most resources himself by rents from subjects) so someone will have power at that moment because of resource accumulation and institutions. Then, however power is allocated decides the economic institutions at that moment *t*, since de jure political power has the legitimate capability of choosing how to govern at face value and de facto political power has the resources to impose their interests. Also, that allocation can move political institutions later, at time t+1, because they are affected by both political power and their interests and thy change slowly. Finally, at time me *t,* the economy will perform a certain way that’s permitted by the economic institutions imposed by power and also its those institutions that will determine a future distribution in the longer term. Considering economic institutions as essential for the economic outcome, but, at the same time, the result of political institutions and political power allocations. We can also observe that both initial factors are determined for t+1, meaning that the figure is cyclical.
12. Persistency stems from the commitment problem facing those in power that prevents them from ever committing to not always tilt the scales in their favor even when it is not the most beneficial for themselves. Those in power want future institutions to benefit them and that means not altering the current model too much. If someone one else wants power, they can gather de facto political power but run into the same problems since ceteris paribus there is no incentive to not alter political institutions also in one’s favor and therefore de jure power all over again.
13. Economic growth in essence seems to come from institutions, culture and geography. Institutions are the ways society organizes itself and tries to counter market inefficiencies to generate, ideally, the best incentives that grow the economy. Next is culture, an important aspect of it being religion around which traditions are set for behavior, so a culture emphasizing work and sacrifice, like the argument goes for Weber’s protestant ethic, could be more inclined to grow in general. Then, geography inevitably factors into what growth can be expected from a country since not every place can extract resources with the same ease as another one leading to differences in development.
14. The correlation of political risk of expropriation and growth could serve as an example of institutions, perhaps leading to, but more surely being a sign of economic development. [[1]](#footnote-1) This is problematic and the first problem that arises against this proof is reverse causality because well-developed and robust institutions could be something that countries are able to develop exactly *because* they’re rich and getting richer. One could also question the data itself, since “protection against expropriation” isn’t much of a hard-fact measurable thing and a lot of subjectivity could be carried into that. Also, it’s precisely a country that might be prone to expropriate one who would also not be very willing to expose and would even go great lengths to hide the extent of expropriations.

1. And also there can be growth without good institutions, as Drelichman purports to show in his paper arguing the Mesta wasn’t actually holding up growth; and as for the Koreas example, both had imperfect political institutions given both were subject to brutal dictatorships and they really only differed in how their elites chose to enrich themselves at the expense of its people so maybe it’s not institutions that drive growth but the happenchance of having a somewhat foresighted extractive elite. But we might be diciendo cualquiera. (That’s the argument in Glaeser et al. (2004) “Do Institutions Cause Economic Growth”) [↑](#footnote-ref-1)