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| **Tutorial 5**  (Week starting on 28-mar-2022) |

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| **Objectives**  ∙ Study the concept of second-best institutions  ∙ Work with a price index  ∙ Continue to investigate the concept of a regression  ∙ Reproduce graphs and tables from a research paper  **Working materials**  ∙ **Drelichman M. [2009]** “License to till: The privileges of the Spanish Mesta as a case of second-best institutions” *Explorations in Economic History.* 46, 220-240 ∙ **Excel**  ∙ You’ll need the **data base** “Datos ejercitación 5” which can be found in the virtual campus |

**Exercise guide**

The exercises marked with an asterisk (\*) are compulsory and must be submitted by email **before 12.00 on Wednesday 6th April**. 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 Drelichman [2009] is trying to answer and how he attemps to do so. What are the main results?

2. Drelichman [2009] mentions two concepts that are relevant to his work. Explain them in your own words:

a. Honrado Consejo de la Mesta (Spanish Mesta)

b. Second-best Institutions

3. Members from the Mesta had two main privileges, what were they? The author uses three variables as a measure of the enforcement of the Mesta’s privileges, what are they? How do these three variables serve as measure for the enforcement of the privileges? Explain it in your own words.

4. Replicate Figure 1 from Drelichman [2009]. Pay attention to the three series that  
 are presented. These are deflated with Andalucía’s tradable goods’ index.  
 Remember that the graph must be self-contained, in other words, one must be  
 able to interpret what the graph shows without having read the entirety of the  
 research paper.

5. In Table 4, the regression of “Licences to till” over price and a set of control variables is shown. Reproduce the fourth column. How is the coefficient of the variable “Price” interpreted?

6. (\*) Reproduce Figure 2 from Drelichman [2009]. Remember that the graph must be self-contained, in other words, one must be able to interpret what the graph shows without having read the entirety of the research paper. What does this figure show us?

7. (\*) In Table 4, the regression of “Appellate lawsuits” over price and a set of control variables is shown. Reproduce the first column. How is the coefficient of the variable “Price” interpreted? What is the main conclusion that the author derives from this table (Hint: think about the question he is trying to answer)?

1. Drelichman asks whether the privileges of the institution of the Mesta in Spain were, as had been typically understood, a completely distortive institution or, given the context, were a second-best arrangement and government enforcement of privileges varied with economic trends. He looks at this through a set of proxy variables for enforcement levels (appellate lawsuits, licenses to till) and uses regression models to see how these are affected by the price of wool. The results seem to convince that indeed it was a second-best institution, because resources are going towards using land for cultivating when wool prices and exports are low, that is, their typical comparative advantage was failing.

2. The mesta was a privileged group of shepherds who lobbied the crown to get passing rights on town’s land that was apt for cultivating, where there would typically be a hold-up problem in which towns couldn’t commit to a price to charge for passing. This privileges ensured a sizeable revenue stream of taxes where agriculture would take longer to reap its benefits. A second best institution, as is the case, is one where there is already another inefficient institution so the combination of the two moves the resulting allocation closer to the possibility frontier than an efficient institution coupled with the inefficient one probably could, so log as a first best isn’t possible.

3. One privilege was passage through “royal sheepwalk” across town lands and another was the “posesión” which fixed prices towns levied on shepherds. These privileges were regulated by special judges designated for the issue and were commanded by the very mesta, so the paper takes appellate lawsuits of these decisions which typically favoured the mesta as these decisions were costly to appeal so would only be appeal when there existed a chance of winning. That is one measure of enforcement so appellate lawsuits should trend up when enforcement eased because they could be won on appeal. And that could also hold true for entregador rulings, the designated judges, because there could be more demand for enforcement when their privileges were being breached more often. The next proxy are licenses to till, which were granted to towns to develop agriculture in their land without sheep grazing on it. Again, more licenses should be issued when enforcement was down.

5. In this table we can interpret how good of a predictor price is for the number of licences to till issued, and it would appear that the lower the price of wool, the more licenses to till were conceded to towns by a factor of -0.056.

6. The graph shows a sharp increase in licenses to till towards the end of the century which should indicate lowered returns from shepherding. That would mean towns were getting resources allocated to them in a time when it was most convenient, as the paper wants us to think. This, according to Drelichman, is also a reflection of an increase in fiscal pressure, that is, the government raised taxes on towns and their produce so therefore they were more interested in having them be a source of revenue, “demonstrating Mesta’s privileges were not all-encompassing” (p. 227).

7. The coefficient for the price variable tells us that, for every price unit, appellate lawsuits are reduced by 0.0097, which equals to one appellate lawsuit when prices go up by about a hundred. This does not look too significant but given the correlation the paper can conclude that price does affect the number of appellate lawsuits somewhat and therefore the level of enforcement of Mesta privileges.

PD: We tried to recreate the r^2 result but only achieved a result for the correlation with prices, which is only one variable, while the paper has an r^2 that accounts for the three variables of price, exports and rulings and we did not get to a reasonable conclusion of how to factor them all in.