######. setup.py

setup.py is a python file, which usually tells you that the module/package you are about to install has been packaged and distributed with Distutils, which is the standard for distributing Python Modules.

This allows you to easily install Python packages. Often it's enough to write:

$ python setup.py install

and the module will install itself.

######. MANIFEST.in

If you want to manipulate (add or remove) default files to include, you have to use MANIFEST.in.

**Re: What should be in it?**

The procedure is simple:

1. Make sure, in your setup.py you include (by means of setup arguments) all the files you feel important for the program to run (modules, packages, scripts ...)
2. Clarify, if there are some files to add or some files to exclude. If neither is needed, then there is no need for using MANIFEST.in.
3. If MANIFEST.in is needed, create it. Usually, you add there tests\*/\*.py files, README.rst if you do not use README.txt, docs files and possibly some data files for test suite, if necessary.

For example:

include README.rst

include COPYING.txt