# Discussion of "Domestic Investment and Aid: The Role of Political Instability"

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### Nice paper

- Important policy implications are clear.
- Well motivated. Introduction clearly defined its place in the literature.
- Methodology was simple, provided clear answers to the question.

## Revision suggestions

- Address endogeneity in the narrative, even if you do not in the method.
- Dummy-up the four categories in Type of Regime (Polit02).
- This would be cool: Huge table of marginal effects for each country (Appendix 1)

How does aid, political instability, and the interaction affect...

#### Financial capital inflows?

- Aid + political stability → increases the productivity of transforming financial capital to physical capital.
- Higher return on this productivity may increase the supply of capital inflows.
- Reinforcing mechanism.

#### Marginal product of capital?

• Specifically, capital that is produced with foreign aid:

$$\hat{\textit{I}}_{i,t}^{\textit{Aid}} = \hat{\alpha}_{3}\mathsf{Aid}_{i,t} + \hat{\alpha}_{4}\mathsf{Aid}_{i,t}^{2} + \hat{\alpha}_{5}\mathsf{Aid}_{i,t}\mathsf{PI}_{i,t}$$

Growth regression:

$$g_t = \beta_0 + \beta_1(L)I_{i,t} + \beta_2(L)\hat{I}_{i,t}^{Aid} + \beta_3(L)\hat{I}_{i,t}^{Aid} PI_{i,t} + \beta_4'X_{i,t} + \beta_5S_i + \beta_6W_t + u_{i,t}$$