

## Quiz

Acemoglu-Robinson book is about a big question in economics. AR articulate the dominate theory about the cause and effect explanation of growth. How does China fit in their theory?

## Chapter 1

1. Institutions are: the rules by which a society governs itself. The “rules of the game.”
2. What do the two Nogales’s illustrate? Claim to see symptoms of good and bad institutions—higher income, education, health on US side, better provision of government services, less crime.
  - a. Very powerful example. Holds a lot of other things constant. The only major difference is the border.
3. The Spanish versus the English colonial model.
  - a. Spanish: extractive. Objective, to take off with the gold. Method, conquer the local leader, set yourself up to rule the colony, force the indigenous people into enslavement. The point: legacy of bad institutional quality in the former Spanish colonies.
  - b. English: same initial objective, but failed to conquer indigenous peoples. Then tried to oppress the colonists, but they ran away. As a

last resort, gave people incentives to stay and work for the crown.

4. Main thesis: Direction of causality. Development of inclusive political institutions lead to inclusive economic institutions, leads to growth and development.

a. Good economic institutions encourages innovation, development of new technologies, because inventors and investors know their ideas and their capital is secure.

## Chapter 2: Reject existing theories.

1. Geography. Correlation between latitude and how rich a country is. Why? Disease, heat, affect labor effort. AR reject this theory: Cite Nogales, the two Koreas.

2. Culture: Hard working and hardly working cultures. AR reject this with the two Koreas.

3. Ignorance Hypthesis: Countries are poor because their rulers are ignorant of good economic practices. AR reject this idea: Every poor country has gotten technical advice from the world Bank and IMF, yet they are still poor.

4. These theories are rejected. Hence there's room for our (AR) theory.

## Chapter 3:

1. Let's get specific about inclusive economic institutions
  - a. Security of property rights.
  - b. Equal access to good education
  - c. Good and consistently applied legal system.
  - d. No barriers to entry for businesses.
  - e. No barriers to entry in occupational career choice.
  - f. Incentives for people to make money.
2. Why do some countries choose extractive institutions.
  - a. Fear of creative destruction: Because the ruling class (the elites) control the old technology. Maintain the status quo.
3. What do AR say about growth under extractive institutions? It can happen, but cannot be sustained. (e.g., soviet union) and they think the same will be true with China.