

Week 1 Lecture 1 – Introduction

Political Economy

Yale-NUS – EC4308

January 16, 2020

Today

- Kahoot – [Let's play!](#)
- Quiz (link [here](#))
- Oversubscribed
- Extra econometrics next week?

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- Oversubscribed
- Extra econometrics next week?
- Concepts
- Discussion of reading by Acemoglu
- Brief intro to IVs
- Long run effects of institutions

Next day (1): Key concepts (2 people for each one)

How do economists define them? Do other disciplines use different definitions? How can we measure them?

- Institutions
- Regimes & regime types
- Welfare
- Economic development & political development
- Social capital
- Ethnographic Atlas (by Murdock, 1967) and similar databases.

Institutions

- Informal - formal rules
- They structure social interactions
- Stable and predictable actions (sociology)
- Comparing actual behavior to what rules say

Regime

- Institution
- Bounded to a political agenda
- Behaviors derived

Economic dvp and political dvp

- Increase in economic level
- In poli sci, aim to improve levels of wellbeing
- They don't necessarily imply each other

Welfare

- Utility gain from material goods & services
- Welfare plans: income support plans
- Prosperity
- GDP, etc.

Social capital

- Social: informal networks
- Capital: stock of resource that is useful for an individual
- What do individuals and society want it?
- Measuring

“Why Nations Fail?.” - Keynote speech

- Reading 1: **Acemoglu, Daron. “Why Nations Fail?.” *The Pakistan Development Review* 54, no. 4 (2015): 301-312.
 - **What's one key takeaway you got from this reading?**
 - What do they mean by extractive vs. inclusive institutions?
 - What do they mean by creative destruction?
 - Why did the Spanish colonizers prefer densely populated, hierarchical societies (like the Guarani) rather than sparsely populated, non-hierarchical societies (like the charruas)?
 - Why is the Virginia Company relevant? What can we learn from it?
 - Can you analyse your own country using their framework? What lessons are there?
 - Is there any point he makes you find particularly weak, or that you disagree with?

Do \downarrow economic conditions \uparrow likelihood of conflict?

- Do conflicts hamper growth?
- Do worsened economic conditions increase likelihood of conflict? (and by how much?)
- Latter: not easy
 - Political Instability \Rightarrow Economic growth \downarrow
 -
 -
 -
 - Economic growth $\downarrow \Rightarrow$ Political Instability
 -
 -
 -

Do \downarrow economic conditions \uparrow likelihood of conflict?

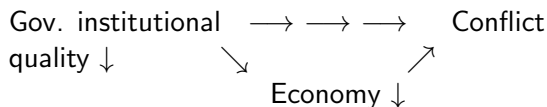
- Do conflicts hamper growth?
- Do worsened economic conditions increase likelihood of conflict?
- Latter: not easy
 - Political Instability \Rightarrow Economic growth \downarrow
 - Investments \downarrow
 - Public investments \downarrow
 - Confidence \downarrow
 - Economic growth $\downarrow \Rightarrow$ Political Instability
 - Unequal access to resources (grievances \uparrow)
 - Weakened institutions (budgets \downarrow)
 - Lower opportunity costs of engaging in conflict
- \Rightarrow Problem 1: Simultaneity

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Do ↓ economic conditions ↑ likelihood of conflict?

- Problem 1: Simultaneity
- Problem 2: Omitted Variable Bias



▶ (e.g., income effects of college education)

- Omitting institutional quality may exacerbate the impact of the economy

Solution? Instrumental Variables

- “Something” that...
 - ... affects the economy
 - ... does not directly affect the prob. of conflict
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- One candidate? Rainfall (droughts) in Africa

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 - Looks like \checkmark

Regression

$$\text{Conflict}_i = \alpha + \beta \Delta \text{GDP}_i + X_i \gamma + \varepsilon_i \quad (1)$$

roughly becomes

$$\text{Conflict}_{it} = \alpha + \beta \Delta \text{rainfall}_{it} + X_i \gamma + \delta_t + \varepsilon_i \quad (2)$$

(Technically, it's a bit more complicated. Again, I refer to the more technical notes on Instrumental variables [here](#))

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If β significant, the effect can only come through the economy.
Bingo!

Some results

- Miguel et al. (2004): “Economic Shocks and Civil Conflict: An Instrumental Variables Approach”
- Data from Africa, 1981-1999
- A five-percentage-point drop in annual economic growth increases the likelihood of a civil conflict in the following year by over 12 percentage points

(but how to measure civil conflict)?

And the mechanism?

- Lower opportunity cost¹
- Increased political grievances
- Weaker militaries and worse infrastructure (\Rightarrow weaker repression)

1. See Efraim Benmelech, Claude Berrebi and Esteban F. Klor, "Economic Conditions and the Quality of Suicide Terrorism". The Journal of Politics, Vol. 74, No. 1 (Jan., 2012), pp. 113-128

How about the big question?

- Do good institutions cause economic growth, or does economic growth cause good institutions?
- Acemoglu and Robinson (2001): “The Colonial Origins of Comparative Development: An Empirical Investigation”

Assignment for Thursday, week 3


- 1/1.5 page or series of tweets (PPS accepted) or imaginary interview
- Take any paper not discussed in class yet that uses IV (Week 2 papers not valid)
- Explain their strategy carefully
- Note: I do not want a summary of the paper. Critical is to explain the question addressed, the need for IVs, and how/why the chosen variables are justifiable (i.e., 3 characteristics above mentioned). You may report results, but this is not critical. Details [here](#).

Van Heusen
man's world
ties

For men only! . . . brand new man-talking, power-packed patterns that tell her it's a man's world . . . and make her so happy it is. And man! . . . how that Van Heusen seamanship makes the fine fabrics hold their shape. And for Christmas . . . here's the Christmas tie that is *really* different. \$2.00
Other Van Heusen ties from \$1.00 to \$2.50

Phillips-Jones Corp., N. Y. 1, N. Y., Makers of Van Heusen Shirts • Sport Shirts • Ties • Pajamas • Handkerchiefs • Collars.

show her
it's a man's world




You mean a woman can open it?

Easy—without a ketchup bottle opener, as you can see. All it takes is a little grease, an easy, one-step twist—and the cap opens itself in your hand.

We call this self-opening bottle cap the Alcoa By-Tap. It is made of pure, hard-rolling Alcoa Aluminum. It opens all—without back-up agents—without muscle power because an aluminum Alcoa grease valve is in each bottle's mouth.

what is it on the bottle. By vacuum sealing both top and sides, this By-Tap gives you a double guard. You'll recognize the aluminum, naturally. But for when you see it on your grocer's shelf. It's long, it's white, it's general—and it's on the neck, handle and shoulder brands. Put the bottle that opens it in your basket . . . give ketchup, dressing and mayonnaise opening time with the same convenience you've got in the world—the Alcoa By-Tap Cap.

Alcoa 
Aluminum

ALUMINUM COMPANY OF AMERICA
Pittsburgh, Pa.

Check [Assignment's page](#) on **CANVAS** for a new assignment for Week 5.

On the origins of gender discrimination

- Why do some societies prefer women confinement in the house?
- Why do others prefer them to take part in the job market and public sphere as men do?

Alesina, Alberto, Paola Giuliano, and Nathan Nunn. "On the origins of gender roles: Women and the plough." *The Quarterly Journal of Economics* 128, no. 2 (2013): 469-530.

Ester Boserup



Ester Boserup (1910-1999), Danish & French economist

Boserup's Hypothesis: gender roles may originate in the form of agriculture traditionally practiced

Boserup's hypothesis



Shifting cultivation

Labour intensive

Handheld tools: hoe, digging stick,...



Plough cultivation

Capital intensive

Requires significant upper body strength,
grip, power, ...



Boserup's hypothesis



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Eventual formation of social norms



Natural place for women is within the home

Boserup's hypothesis



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Eventual formation of social norms



Natural place for women is within the home



Attitudes persist even if society industrializes

Testing

- Standard OLS [▶ details here](#)
- Instruments [▶ details here](#)
- Survey data from the US [▶ details here](#)

Remarks

- Concepts
- IV variables
 - Can you assess when one is needed?
 - Can you assess whether the chosen candidate is adequate?
- Long run effect of institutions (cultural persistence)
 - Theoretical mechanism
 - Identification strategy

Next Monday

- **Tell me your topics for 15-20min presentations**
- More on origins of institutions
- A bit on cooperation and conflict
- Reading: *Boix (2015): Introduction and Chapter 3.
 - Summarize the story & present situation of your country using his framework of analysis:
 - Be ready to make a 2min. delivery in class. Also bring a 1/2 page summary (or thread)
 - When did the first state-like society appear. Who shaped it? Who were the bandits and who were the producers?
 - How about nowadays?

Next Monday

- Reading: *Boix (2015): Introduction and Chapter 3.
 - How does he define a state?
 - What is a critical characteristic of state-less societies?
 - What was the main consequence of the Neolithic agricultural revolution around 6,000-7,000 years ago?
 - What are *bandits* and *producers*?
 - According to the author, what was the key to determine the shape of political order (and also growth, and inequality)?
 - What are the two key strategies that economic agents may take? Which is the dominant in primitive societies?
 - What is a key condition for cooperation?
 - Why is technological change unlikely in stateless societies?

Next Thursday

- **Becker, Anke. “On the Economic Origins of Constraints on Women’s Sexuality.” (2019). *Unpublished manuscript*.
- Check [Assignments page](#) for more details

OLS: linking historical plough use to current outcomes

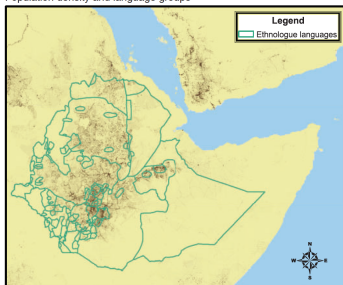
- Goal: Assess correlation btw *past* plough agriculture and *today's*
 - Female Labor Participation
 - % firms that have females among major owners
 - % MPs that are women in Parliament
- How to do that at the country level?

Visualization (Ethiopia)

ORIGINS OF GENDER ROLES

4

(a) Population density and language groups



(b) Population density, language groups, and their traditional plough use

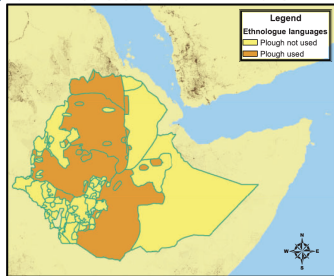


FIGURE I

Populations, Language Groups, and Historical Plough Use within Ethiopia

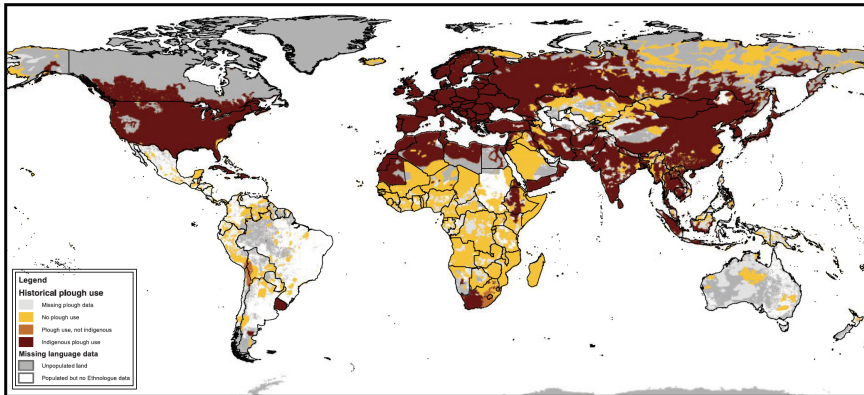
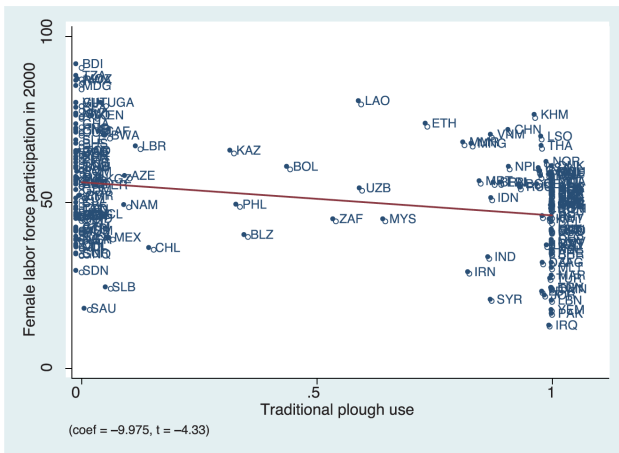


FIGURE II
 Traditional Plough Use among the Ethnic/Language Groups Globally

(a) Female labor force participation in 2000



▶ back to slides

What if reverse causality? \Rightarrow Instruments

- Maybe (just maybe) gender attitudes \Rightarrow plough use
- How can we check for robustness of results?
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Instruments: Land type & crops

- Climate & land: does it induce plough usage? [▶ details](#)
- “Old” independent variable: plough use (yes/no)
- New independent variable:
 - % of suitable land suitable for plough-positive crops

[▶ details of construction](#)

Instruments: findings

- Land type predicts plough use
- Land type predicts female participation today
 - Plough suitability \Rightarrow Less gender-neutral roles today

▶ back to slides

Survey data

- “Are you working or looking for a job?” (females only)
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- Caveats (2):

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- Caveats (2): self-selected sample; possibility of “ghettos” where informal institutions arise

▶ back to slides

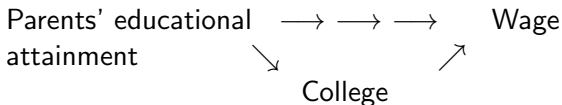
Construction of instrument

- Take centroid of ethnic group
- Area analyzed: circle (200km diameter)
- Asses suitability of each plot, using
 - Use location's precipitation, frequency of wet days, mean temperature, daily temperature range, vapor pressure, cloud cover, sunshine, ground-frost frequency, wind speed, soil slope, and soil characteristics.
- \Rightarrow % of pop. today whose ancestors lived in each type of land/climate

▶ back to slides

Do \downarrow economic conditions \uparrow likelihood of conflict?

- Problem 1: Simultaneity
- Problem 2: Omitted Variable Bias



▶ (back to slides)

- Omitting parents' education may exacerbate the impact of college

Instruments: Land type & crops

- “Plough positive” crops
 - Large tracts of land to be prepared in a short period of time
 - Not shallow, not sloped, not rocky
 - e.g. **Wheat, barley, rye**, wet rice, teff
- “Plough negative” crops
 - e.g. **Sorghum, foxtail millet, pearl millet**, maize, root and tree crops
- Why focus on cereals?

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- Similar caloric value, historical use, meals prepared, similar annual yields

▶ back to slides