

Freie Universität Berlin  
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 Summer Semester 2020

## Comparative Economic Development

**Lecture:** Mondays, 12-14, Online.

**Exercise:** Mondays, 18-20, Online.

**Office Hours:** Mondays, 10-12, Online.

### Modules:

Master of Science in Economics: *Economic Systems*

Master of Science in Public Economics: *Ökonomische Theorie politischer Entscheidungen*

Master of Arts in East European Studies: *Profilbereich VWL*

This course offers to students a comprehensive overview of the new and vibrant field of comparative economic development that has emerged from transition economics, economics of central planning and political economics. Before the economics of transition, comparative economics was devoted mostly to the comparison of capitalism and socialism, and in practice mostly to the study of socialist economic systems (central planning, Yugoslav self-management, market socialism). The transition experience and the economics of transition have shown the importance of the institutions underlying the capitalist system. Comparative economics is now turning to the comparative analysis of institutions of existing capitalist systems and to the historical evolution of those institutions. The exercise in formal models of political economy focuses on transitions from social choice theory to political economics, the role of median voter models and their applicability to general interest politics, probabilistic models of voting and agency models of politics. Moreover, it concentrates in special interest politics, partisan politicians, political regimes and democratization.

### Grade:

Final Exam

### Required Textbooks:

1. Roland Gérard. *Transition and Economics. Politics, Markets and Firms*, MIT Press 2000.
2. Persson Torsten and Guido Tabellini. *Political Economics: Explaining Economic Policy*, MIT Press, 2000.
3. Brocas Isabelle et al. *Workbook to Accompany Political Economics: Explaining Economic Policy*, MIT Press, 2000.

### Week 1: Introduction

#### *Lecture: The New Comparative Economics*

- Roland, Introduction.
- Djankov S., E. Glaeser, R. LaPorta, F. Lopez-de-Silanes and A. Shleifer. The New Comparative Economics, *Journal of Comparative Economics*, Vol. 31, No. 4, December 2003: 595-619.

**Exercise: From Social Choice to Political Economics**

- Persson and Tabellini, Introduction.
- Arrow K. (1951). *Social Choice and Individual Values*, New York, Wiley and Sons.
- Sen A. (1970). *Collective Choice and Social Welfare* North Holland, Amsterdam.
- Geneakoplos, J. (2005). Three Brief Proofs of Arrow's Impossibility Theorem, *Economic Theory*, 211-215.
- Gibbard A. (1973). Manipulation of Voting Schemes, *Econometrica* 41: 587-601.
- Satterthwaite M.A. (1975). Strategy-proofness and Arrow's Conditions: Existence and Correspondence Theorems for Voting Procedures and Social Welfare Functions, *Journal of Economic Theory* 10: 187-217.

**Week 2: Different Coordination Mechanisms****Lecture: Plan vs. Market**

- Weitzman M. Prices Versus Quantities. *Review of Economic Studies* Vol. 41 No. 4, October 1974: 477-491.
- Bolton P. and J. Farrell. Decentralization, Duplication and Delay, *Journal of Political Economy*, Vol. 98 No. 4 1990: 803-826.

**Exercise: Median Voter Models I**

- Persson and Tabellini, Ch. 2 and 6.
- Gans J. and Smart (1996). Majority voting with Single-Crossing Preferences. *Journal of Public Economics*, 59(2): 219-237.
- Davis O., M.H DeGroot and M.J. Hinich (1972). Social Preference Orderings and Majority Rule. *Econometrica* 40(1): 147-157.
- Romer T. (1975). Individual Welfare, Majority Voting and Properties of the Income Tax. *Journal of Public Economics*, 4(2): 163-185.
- Robert K. (1977). Voting Over Income tax Schedules. *Journal of Public Economics*, 8(3): 329-340.

**Week 3: Transition & Development****Lecture: Institutions & Economic Performance**

- Hoff Karla & Joseph E. Stiglitz, 2004. "After the Big Bang? Obstacles to the Emergence of the Rule of Law in Post-Communist Societies," *American Economic Review*, Vol. 94(3): 753-763.
- Johnson Simon & John McMillan & Christopher Woodruff, 2002. "Property Rights and Finance" *American Economic Review*, Vol. 92(5): 1335-1356.
- Besley Timothy, 1995. "Property Rights and Investment Incentives: Theory and Evidence from Ghana" *Journal of Political Economy*, vol. 103(5): 903-37.
- Boix Carles and Milan W. Svobik, 2013. "The Foundations of Limited Authoritarian Government: Institutions, Commitment and Power-sharing in Dictatorships", *Journal of Politics*, vol. 75(2): 300-316.
- Acemoglu Daron and Jim Robinson, 2013. "Economics vs. Politics: Pitfalls of Policy Advice" *Journal of Economic Perspectives*, vol. 27(2): 173-192.
- Acemoglu Daron, Georgy Egorov and Konstantin Sonin, 2015. "Political Economy in a Changing World" *Journal of Political Economy*, vol. 123(5): 1038-1086.

**Exercise: Median Voter Models II**

- Meltzer A.H and S. Richards (1981). A rational theory of the size of government. *Journal of Political Economy* 89 (3): 914-927.
- McKelvey R.D. (1976). Intransitivities in Multidimensional Voting Models and some Implications for Agenda Control. *Journal of Economic Theory* 12: 472-482.

- Romer T. and H. Rosenthal (1979). Bureaucrats versus voters: On the Political Economy of Resource Allocation by Direct Democracy. *Quarterly Journal of Economics* 93: 563-87.
- Bolton P. and G. Roland (1997). The Breakup of Nations: A Political Economy Analysis, *Quarterly Journal of Economics*, vol. 112 no. 4: 1057-1090.
- Cooley T. and J. Soares (1999). A Positive Theory of Social Security based on reputation, *Journal of Political Economy* 107: 135-160.
- Roemer J. (1999). The Democratic Political Economy of progressive Income Taxation. *Econometrica* 67: 1-20.

#### **Week 4: Law & Economics**

##### ***Lecture: Legal Origins & Financial Systems***

- LaPorta R., F. Lopez-de-Silanes, A. Shleifer and R. Vishny. Law and Finance, *Journal of Political Economy* 106, 1998: 1113-1155.
- Glaeser E., A. Shleifer. Legal Origins, *Quarterly Journal of Economics*, vol. 117 No 4, 2002: 1193-1229.
- Fredriksson Per and Jim R. Wollscheid, 2015. "Legal Origins & Climate Change Policies in former Colonies" *Environmental & Resource Economics*, vol. 62(2): 309-327.

##### ***Exercise: Probabilistic Models of Voting***

- Persson and Tabellini, Ch. 2, 3 and 7.
- Dixit A. and J. Londregan (1995). Redistributive Efficiency and Economic Efficiency. *American Political Science Review* 89(4): 856-866.
- Lindbeck A. and J. Weibull (1987). Balanced Budget Redistribution as the Outcome of Political Competition. *Public Choice* 52(3): 273-297.

#### **Weeks 5 & 6: Comparative Financial Systems**

##### ***Lecture: Corporate Governance & the Soft Budget Constraint***

- Dewatripont, Mathias and Eric Maskin, (1995), "Credit and Efficiency in Centralized and Decentralized Economies", *Review of Economic Studies*, 62: 541-555.
- Pagano M. and P. Volpin (2005). The Political Economy of Corporate Governance. *American Economic Review* 95 (4): 1005-1030.
- Buchanan, John, Dominic Heesang Chai and Simon Deakin, 2014. "Empirical analysis of legal institutions and institutional change: multiple-method approaches and their application to corporate governance research" *Journal of Institutional Economics*, vol. 10(1): 1-20.
- With Jannik Jaeger. "The Effectiveness of the ECB's Unconventional Monetary Policy: Comparative Evidence from Crisis and non-Crisis Euro-area Countries", *Journal of International Money & Finance*, Vol. 78 (November 2017): 21-43.

##### ***Exercise: Agency Models of Political Economy***

- Persson and Tabellini, Ch. 4 and 9.
- Ferejohn J. (1986). Incumbent Performance and Electoral Control. *Public Choice* 50(1-3): 5-25.
- Persson T., G. Roland and G. Tabellini (1997). Separation of Powers and Political Accountability. *Quarterly Journal of Economics* 112(4): 1163-1202.

## Weeks 7 & 8: Culture & Religion

### *Lecture: Individualism, Collectivism and Institutions*

- Avner Greif, 1994. "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies," *Journal of Political Economy*, vol. 102(5): 912-50.
- Barro R. and R. McCleary. Religion and Economic Growth. April 2003.
- "Religion, Administration & Public Goods: Experimental Evidence from Russia", *Economic Modelling*, Vol. 66 (November 2017): 42-60.
- Grigoriadis Theocharis. Religious Origins of Democracy and Dictatorship. *Journal of Policy Modeling*, Vol. 38, No. 5 (September-October 2016): 785-809.
- Dombi Akos & Theocharis Grigoriadis. "Ancestry, Diversity & Finance: Evidence from Transition Economies". FU Berlin Economics Discussion Paper Series 4/2017.
- Iannacone LR et al. Lessons from Delphi: Religious Markets and Spiritual Capitals, *Journal of Economic Behavior and Organization*, 2010.
- Tabellini Guido. "Culture and Institutions: Economic Development in the Regions of Europe", *Journal of the European Economic Association*, June 2010, 8 (4): 677-716.

### *Exercise: Partisan Politicians*

- Persson and Tabellini, Ch. 5.
- Alesina A. (1988). Credibility and Policy Convergence in a two-party system with rational voters. *American Economic Review* 7(4): 706-805.
- Besley T. and S. Coate (1997). An Economic Model of Representative Democracy. *Quarterly Journal of Economics* 112(1), 185-214.
- Calvert, R. (1977). Robustness of the Multi-Dimensional Voting Model: Candidate Motivations, Uncertainty and Convergence. *American journal of Political Science* 29(1): 69-95.
- Wittman D. (1977). Candidates with Policy Preferences. A Dynamic Model, *Journal of Economic Theory* 14(1): 180-189.
- Osborne and Slivinski (1996). A Model of Political Competition with Citizen Candidates. *Quarterly Journal of Economics* Vol. 111, No. 1 (February): 65-96.

## Week 9: Comparative Capitalism under Democracy & Dictatorship

### *Lecture: Capitalism & Institutions*

- Acemoglu D. The Form of Property Rights. Oligarchic versus Democratic Societies, *Journal of the European Economic Association*, 2008.
- Barro R. Determinants of Democracy, *Journal of Political Economy* December 1999.
- Przeworski A. et al. *Democracy and Development. Political regimes and Material well-being in the World: 1950-1990*, Cambridge University Press, 2000.
- Persson T. and G. Tabellini, *The Economic Effect of Constitutions*, MIT Press, 2003.

### *Exercise: Special Interest Politics I*

- Persson and Tabellini, Ch. 7.
- Grossman and Helpman (1994). Protection for Sale. *American Economic Review* 84(4), 833-850.

## Week 10: Measuring the Effect of Institutions on Economic Growth

### *Lecture: Capitalism & Institutions*

- Acemoglu D., S. Johnson and J. Robinson. The Colonial Origins of Comparative Development. An Empirical Investigation, *American Economic Review*, Vol. 91: 1369-1401, 2001.
- Hall R. and C. Jones "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics*, 1999, Vol. 114: 83-116.
- Easterly William and Ross Levine, 2016. "The European Origins of Economic Development" *Journal of Economic Growth*, vol. 21(3): 225-257.

**Exercise: Special Interest Politics II**

- Grossman and Helpman (2001). *Special Interest Politics*. Ch. 4 and 5.

**Week 11: Gradualism & China's Administrative Organization**

**Lecture: Chinese Bureaucracy & Economic Reforms**

- Roland Gérard. *Transition and Economics*, Chapter 2, MIT Press 2000.
- Dewatripont Mathias and Gérard Roland. The Design of Reform Packages under Uncertainty. *American Economic Review*, 1995, vol. 83, no. 5, 1995: 107-1223.
- McMillan J. and B. Naughton (1992). "How to Reform a Planned Economy: Lessons from China", *Oxford Review of Economic Policy*, 8: 130-143.
- Chandler Alfred. *Strategy and Structure*, New York: Doubleday and Company, 1966.
- Williamson, Oliver. *Markets and Hierarchies*, New York: Free Press, 1975.
- Qian Yingyi and Chenggang Xu. "Why China's Economic Reforms Differ: M-Form Hierarchy and Entry/Expansion of the Non-State Sector," *Economics of Transition*, 1993, 1(2): 135-170.
- Qian, Yingyi, Gerard Roland, and Chenggang Xu. "Coordination and Experimentation in M-form and U-form Organizations," *Journal of Political Economy*, June 2006.
- Brandt Loren, Debin Ma and Thomas G. Rawski, 2014. "From Divergence to Convergence: Reevaluating the History Behind China's Economic Boom" *Journal of Economic Literature*, vol. 52(1): 45-123.
- Wilson Ross, 2016. "Does Governance cause growth? Evidence from China" *World Development*, vol. 79: 138-151.

**Exercise: Political Regimes**

- Persson and Tabellini, Ch. 10.
- Persson T., G. Roland and G. Tabellini (2000). Comparative Politics and Public Finance. *Journal of Political Economy*, vol. 108 (6): 1121-1161.

**Week 12: Dual-Track Liberalization and Its Properties**

**Lecture: The Chinese Economy between Plan & Market**

- Lau L., Y. Qian and G. Roland (1997). "Pareto-Improving Economic Reforms through Dual-Track Liberalization", *Economics Letters*, 55(2): 285-292.
- Lau L., Y. Qian and G. Roland (2000). "Reform without Losers: An Interpretation of China's Dual-Track Approach to Reforms", *Journal of Political Economy*, vol. 108 (1), pp. 121-143.
- Roland G. and T. Verdier (1999a). "Transition and the Output Fall", *Economics of Transition*, 7(1): 1-28.
- Murphy, K., A. Shleifer and R. Vishny (1992). "The Transition to a Market Economy: Pitfalls of Partial Reform", *Quarterly Journal of Economics*, 107: 889-906.
- Sicular T. (1988). "Plan and Market in China's Agricultural Commerce", *Journal of Political Economy*, 96(2): 283-307.
- Byrd W. A., (1987). "The Impact of the Two-Tier Plan/Market System in Chinese Industry", *Journal of Comparative Economics*, 11: 295-308.

- Byrd W. A., (1989). "Plan and Market in the Chinese Economy: A Simple General Equilibrium Model", *Journal of Comparative Economics*, 13, 177-204.
- Wang Hao, Honglin Wang, Lisheng Wang and Hao Zhou, 2016. "Shadow Banking: China's Dual-Track Interest Rate Liberalization" *SSRN Working Paper*.

#### ***Exercise: Electoral Rules Under Parliamentary Regimes***

- Persson, T., G. Roland and G. Tabellini. (2007). How do Electoral Rules shape party structures, government coalitions and government policies? *Quarterly Journal of Political Science*: <http://elsa.berkeley.edu/~groland/pubs/QJPS.pdf>
- Milesi-Ferretti G.-M. Perotti and Rostagno M. (2002). "Electoral Systems and Public Spending", *Quarterly Journal of Economics*, 117(2): 609-658.
- Lizzeri A. and Persico N. (2001). "The Provision of Public Goods under Alternative Electoral Incentives" *American Economic Review*, 91(1): 225-239.
- Austen-Smith, D. (2000). "Redistributing income under proportional representation", *Journal of Political Economy*, 108: 1235-1269.

### **Week 13: Fiscal Decentralization and Bureaucratic Incentives**

#### ***Lecture: Decentralization & State Capacity in Chinese Provinces***

- Faguet Paul, 2014. "Decentralization and governance" *World Development*, vol. 53: 2-13.
- Berkowitz D. and W. Li (2000), "Tax Rights in Transition Economies: A Tragedy of the Commons?" *Journal of Public Economics*.
- Weingast Barry R., "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Growth," *Journal of Law, Economics, and Organization*, 1995, 11, pp. 1-31.
- Qian Yingyi, and Barry R. Weingast, "Federalism as a Commitment to Market Incentives," *Journal of Economic Perspectives*, Fall 1997, 11(4), pp. 83-92.
- Qian Yingyi, and Gerard Roland, "Federalism and the Soft Budget Constraint", *American Economic Review*, December 1998, 88(5), pp. 1143-1162.
- Zhuravskaya Ekaterina, "Incentives to Provide Local Public Goods: Fiscal Federalism, Russian Style," *Journal of Public Economics*, 2000, 76, pp. 337-368.
- Jin Hehui, Yingyi Qian and Barry Weingast, "Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style," *Journal of Public Economics*, September 2005, 89(9-10), pp. 1719-1742.
- Young A. The Razor's Edge: Distortions and Incremental Reform in the People's Republic of China, *Quarterly Journal of Economics* 115 (November 2000): 1091-1135.
- Smith Graeme, 2010. "The Hollow State: Rural Governance in China" *China Quarterly*, vol. 203: 601-618.

#### ***Exercise: Democratization***

- Acemoglu and Robinson, *Economic Origins of Dictatorship and Democracy*, Cambridge University Press 2007, Ch. 6 and 7.

### **Week 14: Meritocracy and Yardstick Competition in the Chinese Administration**

#### ***Lecture: Meritocracy, Performance & Accountability, Chinese Style***

- Maskin Eric, Yingyi Qian and Chenggang Xu. "Incentives, Information, and Organizational Form," *Review of Economic Studies*, April 2000, 67(2): 359-378.
- Li Hongbin and Li-An Zhou. Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China. *Journal of Public Economics*, September 2005, 89(9-10): 1743-1762.
- Chen Ye & Li, Hongbin & Zhou, Li-An, 2005. "Relative performance evaluation and the turnover of provincial leaders in China" *Economics Letters*, vol. 88(3): 421-425, September.

- Li S. Li. S. and W. Zhang, 2000. The Road to Capitalism: Competition and Institutional Change in China, *Journal of Comparative Economics* 28: 269-292.
- Shih Victor, Christopher Adolph and Mingxing Liu, 2012. "Getting Ahead in the Communist Party: Explaining the Advancement of Central Committee Members in China" *American Political Science Review*, vol. 106(1): 166-187.
- Lu Xiaobo and Pierre Laundry, 2014. "Interjurisdiction, Political Competition and Fiscal Extraction in China" *American Political Science Review*, vol. 108(3): 706-722.

*Exercise: Final Exam Review*

- Select problems from the Political Economics workbook.