

Seminar 4: Inequality and institutions

ECON 4915, Spring 2014, Martin Flatø

Question 1 Inequality and growth

- a. Compare the empirical strategies of Kutznets (1955), Deininger and Squire (1996) and Easterly (2007). How and why do you think their findings differ? Why does Easterly (2007) use an instrument?
- b. Ray chapter 7, exercise 11.
- c. Consider the simple toy model included in Moene and Wallerstein (2003).
 - (a) How can wage compression induce development?
 - (b) How would a tax financed public spending affect i) modernisation, ii) unemployment, and iii) the distribution of gross earnings?

Question 2 Institutions and growth

Use Michalopoulos and Papaioannou (2011) in answering this question.

- a. In section 3, the role of contemporary national institutions in shaping regional development is studied using a within-ethnicity estimation and a regression discontinuity design.
 - (a) Explain each of these methods and compare them
 - (b) What is their main result?
 - (c) Discuss the internal and external validity of their finding. Is a causal interpretation warranted in this case?
- b. In section 4, the role of pre-colonial ethnic institutions in shaping regional development is studied using a within-country specification and a contiguous ethnic homeland analysis. Answer questions a-c above for this section as well.

Question 3 Institutions, inequality and growth

Use Moene and Wallerstein (2003), Rodrik (2000) and Michalopoulos and Papaioannou (2011) in answering this question.

- a. What type of institutions do the authors believe to be central for economic development?
- b. Rodrik (2000) describes a blueprint and a local-knowledge mode of acquiring institutions. Discuss strengths and weaknesses of these two approaches in light of the three papers. In particular, can the Scandinavian model be used as a role model for developing countries? Give a critical assessment.