

Problem set 1 – ECON 4921, August 31, 2009.

Paper: Acemoglu and Johnson (2005, JPE).

- 1) What are property rights institutions and contracting institutions? How do AJ empirically quantify these?
- 2) Discuss the key challenges one faces in identifying the causal effect of institutions on economic performance.
- 3) Explain how colonial history offer a natural experiment that may allow us to separate the causal effects of different sets of institutions. Relate the answer to AJs first stage regressions. What does the R^2 from the first stage tell us?
- 4) What two criteria has to be fulfilled for a valid IV strategy? How can we know whether these criteria are fulfilled?
- 5) AJ document an effect of legal institution on long run economic performance in OLS, but not in 2SLS. Interpret.
- 6) AJs results are robust across a variety of specifications. Explain briefly the rationale for experimenting with additional control variables.
- 7) Discuss why property rights institutions may be more important than contracting institutions.