

## Development and Political Economy

Course title – Intitulé du cours	Development and Political Economy
Level / Semester – Niveau /semestre	M2 ETE / S2
School – Composante	Ecole d'Economie de Toulouse
Teacher – Enseignant responsable	AURIOL Emmanuelle MONTENEGRO Mateo
Other teacher(s) – Autre(s) enseignant(s)	
Other teacher(s) – Autre(s) enseignant(s)	
Other teacher(s) – Autre(s) enseignant(s)	
Other teacher(s) – Autre(s) enseignant(s)	
Other teacher(s) – Autre(s) enseignant(s)	
Lecture Hours – Volume Horaire CM	30
TA Hours – Volume horaire TD	
TP Hours – Volume horaire TP	
Course Language – Langue du cours	English
TA and/or TP Language – Langue des TD et/ou TP	English

### Teaching staff contacts:

Meeting by appointment only, preferred mean of interaction by email:

AURIOL Emmanuelle: [emmanuelle.auriol@tse-fr.eu](mailto:emmanuelle.auriol@tse-fr.eu), Office T.353.

Mateo Montenegro: [mateo.montenegro@tse-fr.eu](mailto:mateo.montenegro@tse-fr.eu), Office T.352

### Course Objectives:

This course is the first introductory course of the doctoral field on “Development and Political Economy.” It primarily targets students enrolled in the Master 2 in Economic Theory and Econometrics (M2 ETE), but it is also open to students enrolled in the Master 2 in Public Policy and Development (M2 PPD). It provides a general introduction to the field of Development Economics and its synergies with Industrial Organization and Political Economy.

The first part of the course (15 hours, 5 sessions of 3 hours each) will be taught by Emmanuelle Auriol (EA). It aims at providing students with an overview of recent research in the field of Development Microeconomics, especially that concerned with industrial organization issues with a special focus on quality management in developing countries, the behavior of firms and governments, and the organization of markets.

The second part of the course (15 hours; 10 sessions 1.5 hour each) will be taught by Mateo Montenegro. It is intended to be a graduate-level introduction to the recent literature studying the role of bureaucracies and corruption on the economic and social development of countries. Its focus will be on frontier research linking theory to empirical evidence. At the end of the course students

should be familiar with historical and current debates about governance and development, and they should be acquainted with the main models and evidence in the literature.

**Prerequisites :**

Microeconomic theory and Applied Econometrics. Although the course will not use difficult mathematics, some familiarity with game theory and incentive theory will be helpful for both parts, as well as with causal estimation methods.

**Practical information about the sessions:**

Students are expected to attend all classes and participate in class discussions. Using laptops or tablets is allowed for taking notes only.

**Grading system :**

The grade will be organized as follows:

- Part one: Take-home exam
- Part two: Take-home exam (60%) + Pop-quizes (40%)

**Bibliography/references:**

**Part One: Economic Development**

**Emmanuelle Auriol: Quality Provision in Developing Countries**

**General Readings :**

1. Jean Tirole "Industrial Organization" MIT Press
2. Emmanuelle Auriol, Claude Crampes and Antonio Estache "Regulating Public Services: Bridging the Gap between Theory and practice", 2021 Cambridge University Press.
3. Modern Industrial Organization 3rd Edition, by Dennis W. Carlton and Jeffrey M. Perloff, Addison-Wesley, ISBN 0-321-01145-7
4. Emmanuelle Auriol, Gaëlle Balineau and Nicolas Bonneton, « Quality for Development », Book mimeo.

**1. Introduction (1 session)**

Emmanuelle Auriol, Gaëlle Balineau and Nicolas Bonneton, « Quality for Development »,

Quality Provision by Monopoly: Vertical and horizontal models of quality, lemons and credence goods (Tirole Chapter 2, Chapter 7; Carlton-Perloff: Chapter 8, Chapter 14, Chapter 15)

Price and Quality Discrimination (Tirole Chapter 3, Chapter 4 ; Carlton-Perloff : Chapter 11, Chapter 12)

## **2. Experience Quality: moral hazard and adverse selection in developing countries (1 session)**

Anagol, S. (2017). "Adverse selection in asset markets: Theory and evidence from the Indian market for cows." *Journal of Development Economics*.

Balineau, G. (2013). "Disentangling the effects of fair trade on the quality of Malian cotton". *World Development*, 44:241-255.

Davis, L. W. and Kahn, M. E. (2010). "International trade in used vehicles: The environmental consequences of NAFTA", *American Economic Journal: Economic Policy*, 2:58-82.

Dranove, D. and Jin, G. Z. (2010). "Quality disclosure and certification: Theory and practice." *Journal of Economic Literature*, 48(4):935-963.

Duflo, E., Kremer, M., and Robinson, J. (2011). "Nudging farmers to use fertilizer: Theory and experimental evidence from Kenya." *American Economic Review*, 101(6):2350-90.

## **3. Building a good reputation: repeated purchases (1 session)**

Atkin, D., Faber, B., and Gonzalez-Navarro, M. (2018). Retail globalization and household welfare: Evidence from Mexico. *Journal of Political Economy*, 126(1):1-73.

Bai, J., Gazze, L., and Wang, Y. (2019). Collective reputation in trade: Evidence from the Chinese dairy industry.

Banerjee, A. V. and Duflo, E. (2000). Reputation effects and the limits of contracting: A study of the Indian software industry. *The Quarterly Journal of Economics*, 115(3):989-1017.

Fafchamps, M., Vargas Hill, R., and Minten, B. (2008). Quality control in nonstaple food markets: evidence from India. *Agricultural Economics*, 38.

Greif, A. (1993). Contract enforceability and economic institutions in early trade: The maghribi traders' coalition. *The American economic review*, pages 525-548.

Hansman, C., Hjort, J., Leon-Ciliotta, G., and Teachout, M. (2020). Vertical integration, supplier behavior, and quality upgrading among exporters. *Journal of Political Economy*, 128(9):3570-3625.

Kranton, R. and Swamy, A. V. (2008). Contracts, hold-up, and exports: textiles and opium in colonial India. *American Economic Review*, 98(3):967-89.

Macchiavello, R. and Morjaria, A. (2015). The value of relationships: evidence from a supply shock to Kenyan rose exports. *The American Economic Review*, 105(9):2911-2945.

McMillan, J. and Woodruff, C. (1999). Interfirm relationships and informal credit in Vietnam. *The Quarterly Journal of Economics*, 114(4):1285-1320.

Michelson, H., Fairbairn, A., Ellison, B., Maertens, A., and Manyong, V. (2021). Misperceived quality: Fertilizer in Tanzania. *Journal of Development Economics*, 148:102579.

#### **4. Credence Attribute and Certification in Developing Countries (1 session)**

Auriol, E. and Schilizzi, S. G. (2015). "Quality signaling through certification in developing countries." *Journal of Development Economics*, 116:105-121.

Bold, T., Kaizzi, K. C., Svensson, J., and Yanagizawa-Drott, D. (2017). "Lemon technologies and adoption: measurement, theory and evidence from agricultural markets in Uganda." *The Quarterly Journal of Economics*, 132(3):1055-1100.

Byanyima, M. (2009). "Ground control. making the grade in agriculture" Policy Voices Series. London: Africa Research Institute. <http://africaresearchinstitute.org/newsite/wp-content/uploads/2013/03/PV-Ground-Control-Making-the-grade-in-agriculture.pdf>.

Galland, J.-P. (2017). "Big third-party certifiers and the construction of transnational regulation." *The ANNALS of the American Academy of Political and Social Science*, 670(1):263-279.

#### **5. Corruption and public provision of quality (1 session)**

Topics include the measurement and impact of corruption on economic, social and political outcomes, with a special focus on quality issue.

Auriol, Emmanuelle, Thomas Flochel and Stéphane Straub, 2016, "Public Procurement and Rent-Seeking: The Case of Paraguay", *World Development*, 77, 395–407.

Bertrand, Marianne, Simeon Djankov, Rema Hanna and Sendhil Mullainathan. 2007. "Obtaining a Driving License in India: An Experimental Approach to Studying Corruption." *The Quarterly Journal of Economics*, 122(4): 1639-1676.

Fisman, Raymond and Yongxiang Wang, 2015. "The Mortality Cost of Political Connections", forthcoming, *Review of Economic Studies*, 82, 1346–1382.

Olken, Benjamin and Pande, Rohini, "Corruption in Developing Countries". *Annual Review of Economics* 4, pp. 479-505, July 2012.

Olken, Benjamin. 2007. "Monitoring Corruption: Evidence from a Field Experiment in Indonesia." *Journal of Political Economy* 115(2): 200-249.

Ritva Reinikka & Jakob Svensson "Fighting corruption to improve schooling: Evidence from a newspaper campaign in Uganda", *Journal of the European Economic Association*, 2005, 3 (2-3): 259-267.

Auriol Emmanuelle "Regulating Quality in the Water Sector: A Theoretical Perspective", 2021, in *Oxford Research Encyclopedia of Global Public Health* by Oxford University Press <https://doi.org/10.1093/acrefore/9780190632366.013.314>

## **Part Two: The Political Economy of Development**

### **1. Introduction to bureaucracy and development (1 session)**

Best, Michael, Jonas Hjort and David Szakonyi (Forthcoming). "Individuals and Organizations as Sources of State Effectiveness". *American Economic Review*.

Besley, Timothy, Robin Burgess, Adnan Khan and Guo Xu (Forthcoming). "Bureacracy and Development". *Annual Review of Economics* 14.

Cornell, Agnes, Carl Henrik Knutsen and Jan Teorell (2020). "Bureaucracy and Growth". *Comparative Political Studies*, 53 (14): 2246-2282.

Finan, Frederico, Benjamin A. Olken, and Rohini Pande. 2017. "The Personnel Economics of the Developing State". In *Handbook of Economic Field Experiments*, ed. by Abhijit V. Banerjee and Esther Duflo, 2:467–514. North-Holland.

Pepinsky, Thomas B., Jan H. Pierskalla, and Audrey Sacks (2017). "Bureacracy and Service Delivery". *Annual Review of Political Science*, vol. 20, pp.249-268.

Weber, Max (1921). "Bureaucracy".

### **2. Bureaucrats and incentives (2 sessions)**

Acemoglu, Daron, Leopoldo Fergusson, James Robinson, Dario Romero, and Juan F. Vargas (2020). "The Perils of High-Powered Incentives: Evidence from Colombia's False Positives." *American Economic Journal: Economic Policy*, 12 (3): 1-43.

Bertrand, Marianne, Robin Burgess, Arunish Chawla and Guo Xu (2020). "The Glitering Prizes : Career Incentives and Bureaucratic Performance." *Review of Economic Studies*, 87 (2) : 626-655.

Khan, Adnan Q., Asim Ijaz Khwaja, and Benjamin A. Olken (2019). "Making Moves Matter: Experimental Evidence on Incentivizing Bureaucrats through Performance-Based Postings." *American Economic Review*, 109 (1): 237-70.

Khan, Muhammad Yasir (2023). "Mission Motivation and Public Sector Performance : Experimental Evidence from Pakistan". Working Paper.

Leaver, Clare, Owen Ozier, Pieter Serneels, and Andrew Zeitlin (2021). "Recruitment, Effort, and Retention Effects of Performance Contracts for Civil Servants: Experimental Evidence from Rwandan Primary Schools." *American Economic Review*, 111 (7): 2213-46.

### **3. Selection of Bureaucrats (2 sessions)**

Ashraf, Nava, Oriana Bandiera, Edward Davenport, and Scott S. Lee (2020). "Losing Prosociality in the Quest for Talent? Sorting, Selection, and Productivity in the Delivery of Public Services." *American Economic Review*, 110 (5): 1355-94.

Moreira, Diana and Santiago Perez (Forthcoming). "Civil Service Exams and Organizational Performance: Evidence from the Pendleton Act". *American Economic Journal: Applied Economics*.

Moreira, Diana and Santiago Perez (2023). "Who Benefits from Meritocracy?". *Working Paper*.

Spenkuch, Jorg and Edoardo Teso and Guo Xu (Forthcoming). "Ideology and Performance in Public Organizations". *Econometrica*.

Xu, Guo (2018). "The Costs of Patronage: Evidence from the British Empire." *American Economic Review*, 108 (11): 3170-98.

### **4. The Consequences of Corruption (2 sessions)**

Banerjee, Abhijit, Rema Hanna, and Sendhil Mullainathan (2013). "Corruption". In: *The Handbook of Organizational Economics*. Ed. by Robert Gibbons and John Roberts. Princeton University Press, pp. 1109–1147.

Bertrand, Marianne, Simeon Djankov, Rema Hanna and Sendhil Mullainathan (2007). "Obtaining a Driver's License in India: An Experimental Approach to Studying Corruption." *Quarterly Journal of Economics*, 122(4).

Colonnelli, Emanuele and Mounu Prem (2022). "Corruption and Firms". *Review of Economic Studies*, 89(2).

Fisman, Raymond and Miriam A. Golden (2016). *Corruption: What Everyone Needs to Know*. Oxford University Press.

Fisman, Ray and Shang-Jin Wei (2004). "Tax Rates and Tax Evasion: Evidence from 'Missing Imports' in China." *Journal of Political Economy*, 112(2).

Olken, Benjamin and Rohini Pande (2012). "Corruption in Developing Countries". *Annual Review of Economics*, 4.

Sanchez de la Sierra, Raul, Kristof Titeca, Haoyang Xie, Albert Jolino Malukisa, and Aimable Amani Lameke (2022). "The Real State: Inside the Congo's Traffic Police Agency". Working Paper.

Sukhtankar, Sandip (2015). "The Impact of Corruption on Consumer Markets: Evidence from the Allocation of 2G Wireless Spectrum in India". *Journal of Law and Economics*, 58 (1).

Weaver, Jeff (2021). "Jobs for Sale: Corruption and Misallocation in Hiring". *American Economic Review*, 110(10).

## 5. The Causes of Corruption (2 sessions)

Ajzenman, Nicolás. 2021. "The Power of Example: Corruption Spurs Corruption." *American Economic Journal: Applied Economics*, 13 (2).

Avis, Eric, Claudio Ferraz and Frederico Finan (2017). "Do Government Audits Reduce Corruption? Estimating the Impacts of Exposing Corrupt Politicians." *Journal of Political Economy*, 126(5).

Burgess, Robin, Matthew Hansen, Benjamin A. Olken, Peter Potapov and Stefanie Sieber (2012). "The Political Economy of Deforestation in the Tropics." *Quarterly Journal of Economics*, 127(4).

Coviello, Decio, and Stefano Gagliarducci. 2017. "Tenure in Office and Public Procurement". *American Economic Journal: Economic Policy*, 9 (3).

Dunning, Thad (and many others) (2019). "Voter Information Campaigns and Political Accountability: Cumulative Findings from a Preregistered Meta-Analysis of Coordinated Trials". *Science Advances*, 5(7).

Ferraz, Claudio and Frederico Finan (2008). "Exposing Corrupt Politicians: The Effects of Brazil's Publicly Released Audits and Electoral Outcomes." *Quarterly Journal of Economics*, 123(2).

Ferraz, Claudio, and Frederico Finan (2011). "Electoral Accountability and Corruption: Evidence from the Audits of Local Governments." *American Economic Review*, 101 (4).

Fisman, Raymond, & Miguel, Edward. (2007). "Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets". *Journal of Political Economy*, 115(6).

Simpser, Alberto (2020). "The Culture of Corruption across Generations: An Empirical Study of Bribery Attitudes and Behavior". *The Journal of Politics*, 82(4).

## 6. Fighting Corruption (1 session)

Bandiera, Oriana, Andrea Prat and Tommaso Valletti (2009). "Active and Passive Waste in Government Spending: Evidence from a Policy Experiment." *American Economic Review*, 99(4).

Bandiera, Oriana, Michael Carlos Best, Adnan Qadir Khan and Andrea Prat (2021). "The Allocation of Authority in Organizations: A Field Experiment with Bureaucrats". *The Quarterly Journal of Economics*, 136(4).

Burguet, Roberto, Juan-José Ganuza, and Jose G. Montalvo (2016). "The Microeconomics of Corruption: A Review of Thirty Years of Research". Barcelona GSE Working Paper Series - Working Paper n. 908.

Becker, Gary S. and George J. Stigler (1974). "Law Enforcement, Malfeasance, and Compensation of Enforcers". *Journal of Legal Studies*, 3(1).

Dal Bo, Ernesto, Frederico Finan and Martin Rossi (2013). "Strengthening State Capabilities: The Role of Financial Incentives in the Call to Public Service". *Quarterly Journal of Economics*, 128(3).

Di Tella, Rafael and Ernesto Schargrodsky (2003). "The Role of Wages and Auditing during a Crackdown on Corruption in the City of Buenos Aires". *Journal of Law and Economics*, 46(1).

Gerardino, Maria Paula, Stephan Litschig and Dina Pomeranz (2022). "Distortion by Audit: Evidence from Public Procurement". Working Paper.

Hanna, Rema and Shing-Yi Wang (2017). "Dishonesty and Selection into Public Service". *American Economic Journal: Economic Policy*, 9(3).

Khwaja, Asim, Adnan Khan, and Benjamin Olken (2016). "Tax Farming Redux: Experimental Evidence on Performance Pay For Tax Collectors". *Quarterly Journal of Economics*, 131 (1).

Niehaus, Paul and Sandip Sukhtankar (2013). "Corruption Dynamics: The Golden Goose Effect". *American Economic Journal: Economic Policy*, 5(4).

Olken, Benjamin A. (2007). "Monitoring Corruption: Evidence from a Field Experiment in Indonesia". *Journal of Political Economy*, 115(2).

Olken, Benjamin A. and Patrick Barron (2009). "The Simple Economics of Extortion: Evidence from Trucking in Aceh". *Journal of Political Economy*, 117(3).



**Session planning:**

See detailed syllabus above.

**Distance learning:**

*Distance learning can be provided when necessary by implementing:*

- *Interactive virtual classrooms via Zoom*
- *Recorded lectures (videos)*
- *Chatrooms: Weekly office hours on Zoom upon request*