

## ECON 4918: ECONOMICS OF CONFLICT

### **PROBLEM 1**

This problem is based on “Domestic Political Survival and International Conflict: Is Democracy Good for Peace?” by S. Baliga, D. Lucca and T. Sjoström.

- (i) “Democratization carries promise but also many risks”. Discuss this statement in light of the relation between probability of conflict and political regimes (democracy, limited democracy and dictatorship).
- (ii) Look at the payoff matrix for a citizen with cost type  $c$  (refer to the matrix labelled (1) on pp 463 of the article.) Now recall that the leader of either country gets to enjoy “rents”  $R > 0$  when she/he can manage to stay in power. Denoting the cost type of the leader of country  $i$  by  $c_i$ , write down the payoff matrix for the leader of country  $i$  for *each of the three regimes*.
- (iii) Does the value of  $R$  influence a dictator’s actions in equilibrium? Answer on the basis of the matrix you have constructed in part (ii). Now suppose this dictator’s cost type  $c$  is such that  $\mu < c < d$ . Will this leader *always* choose action  $A$  in equilibrium? Suppose that this dictator knew that *every other* dictator also has a similar cost type, i.e., their costs lie between  $\mu$  and  $d$ . Then which outcome(s) do you expect in a dyad with two dictators in equilibrium?
- (iv) Look at column (1) in Table 3 in the article (pp 475). What do the negative coefficients on the (dyad) dummy variables imply? What in this column tells us that a dyad of two democracies is the most peaceful?

### **PROBLEM 2**

This problem is based on “Crime Induced Poverty Traps” by H. Mehlum, K. Moene and R. Torvik.

- (i) Describe the concept of equilibrium in this model. Is  $\pi=0$  absolutely critical in equilibrium? What modification (if any such exist) is required in the model to sustain  $\pi > 0$  in equilibrium?
- (ii) Consider the case of public employment programs. Suppose like before that the total wage bill for these public workers is collectively borne by the private firms. Now assume that these public workers are *actually productive* (the public workers by being productive improve infrastructure which reduce firms’ costs). However, this reduction in costs is lower than the increase in costs due to their wage bill. Can such a program help escape the poverty trap? Discuss.