

UNIVERSITY OF OSLO

DEPARTMENT OF ECONOMICS

Exam: **ECON4921 – Institutions and Economic Systems**

Date of exam: Thursday, November 30, 2017 **Grades are given:** December 21, 2017

Time for exam: 14.30 – 17.30

The problem set covers 2 pages

Resources allowed:

- No written or printed resources – or calculator - is allowed (except if you have been granted use of a dictionary from the Faculty of Social Sciences)

The grades given: A-F, with A as the best and E as the weakest passing grade. F is fail.

Answer all questions. All sub-questions carry equal weight

I. Short questions (weight 1/3)

- 1) Explain briefly why political favoritism is negative for economic performance. How can we go forth to detect the presence and extent of economic favoritism empirically?
- 2) What do Besley and Persson¹ (2009) mean by “state capacity” and why does it matter economically? Explain why rulers may choose to *not* invest in extending state capacity in some cases.

II. Long question: Culture and economic performance (weight 2/3)

- 1) How is the concept “culture” defined in economics? Why do we believe it matters for economic performance?
Be as precise as you can. Presenting a small model may be useful.
- 2) What are the empirical challenges in studying the effect of culture on economic performance? Explain how Algan and Cahuc² (2010) attempt to solve these challenges using data on US immigrants. Discuss the credibility of their approach.
- 3) Nunn and Wantchekon³ (2011) argue that the slave trade reduced levels of trust in Africa. Explain this argument, and describe how they substantiate it empirically. Their Table 1 is reproduced below. Interpret the findings in the Table.

¹ Besley, Timothy and Torsten Persson 2009. “The Origins of State Capacity: Property Rights, Taxation and Politics”, *American Economic Review*, 99(4): 1218-44

² Algan, Yann, and Pierre Cahuc, 2010. “Inherited Trust and Growth”, 2010. *American Economic Review*, 100(5): 2060-92.

³ Nunn, Nathan, and Leonard Wantchekon, 2011. “The Slave Trade and the Origins of Mistrust in Africa.” *American Economic Review*, 101(7): 3221-52.

TABLE 1—OLS ESTIMATES OF THE DETERMINANTS OF TRUST IN NEIGHBORS

Dependent variable: Trust of neighbors	Slave exports (thousands) (1)	Exports/ area (2)	Exports/ historical pop (3)	ln (1 + exports) (4)	ln (1 + exports/ area) (5)	ln (1 + exports/ historical pop) (6)
Estimated coefficient	-0.00068 [0.00014] (0.00015) {0.00013}	-0.019 [0.005] (0.005) {0.005}	-0.531 [0.147] (0.147) {0.165}	-0.037 [0.014] (0.014) {0.015}	-0.159 [0.034] (0.034) {0.034}	-0.743 [0.187] (0.187) {0.212}
Individual controls	Yes	Yes	Yes	Yes	Yes	Yes
District controls	Yes	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	20,027	20,027	17,644	20,027	20,027	17,644
Number of ethnicities	185	185	157	185	185	157
Number of districts	1,257	1,257	1,214	1,257	1,257	1,214
R ²	0.16	0.16	0.15	0.15	0.16	0.15

Notes: The table reports OLS estimates. The unit of observation is an individual. Below each coefficient three standard errors are reported. The first, reported in square brackets, is standard errors adjusted for clustering within ethnic groups. The second, reported in parentheses, is standard errors adjusted for two-way clustering within ethnic groups and within districts. The third, reported in curly brackets, is T. G. Conley (1999) standard errors adjusted for two-dimensional spatial autocorrelation. The standard errors are constructed assuming a window with weights equal to one for observations less than five degrees apart and zero for observations further apart. The individual controls are for age, age squared, a gender indicator variable, five living conditions fixed effects, ten education fixed effects, 18 religion fixed effects, 25 occupation fixed effects, and an indicator for whether the respondent lives in an urban location. The district controls include ethnic fractionalization of each district and the share of the district's population that is the same ethnicity as the respondent.

- 4) What is the difference between culture and institutions? Which of the two are most important for understanding economic performance?