

Housekeeping

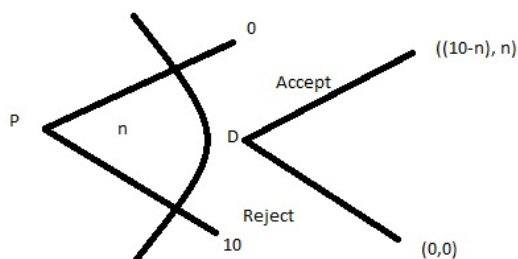
- Will get papers back at the end of class
 - o Modal grade was a B, median grade was a B
 - o Read my comments carefully, happy to talk to you about your papers
- Anyone coming to office hours today?

In Class:

- Start today with an activity
- Move into a discussion about the North and Thomas and North and Weingast pieces
- Take a break
- Then ask Joan to give her presentation
- We'll jump off from that into a conversation about the A&R piece

Activity:

- We're going to play "the ultimatum game"
- The pairs/groups of three are as follows:
 - o Mouad and Moe
 - o Raquel and Joan
 - o Yinka, Zoe and Victoria
- In this game, one person is the proposer and one person is the decider.
 - o Decide who is going to play which role.
 - o For the group of three, you can just do each round of this twice, with one person sitting out each time
- So in this game, the proposer moves first. Each team has 10 M&Ms in front of them.
- (draw the structure of the game up on the board, explain the payoffs)
- The proposer decides what the M&M split will be, and then the decider can choose whether to accept or reject the split.
- If the decider accepts, the decider gets the amount offered, and the proposer gets the remainder.
- If the decider rejects, neither proposer or decider get anything.
- Don't eat the candy.
- Have the students repeat the game, switching roles, and instead of playing it as a repeated game – play it 5 times in a row. Write down the proposal and the outcome each time.



Discussion Questions:

- What were the outcomes of the game? (Write down outcomes on the board after each round)
- (Proposal, Accept Reject, Payoffs for P and D)
- What should have happened? (terms for the one shot deal probably worse than the terms for the repeated game)
- Why do you think ^ this is? What is the benefit of building up a reputation of being fair? Why might you want to do this? Why does this not happen in the one shot game?

- Is reputation enough to make a credible commitment? What happened in the last round of the game? Did the proposer change the terms of the deal at all?
- Beyond reputation, what else might you need to make a credible commitment? What do N&W/N&T say?
 - o Institutions that increase credibility
- What is an institution? What are some examples of formal and informal institution?
 - o Definitions vary (From Sam's lesson plan):
 - North (1990): institutions are the "rules of the game," a set of formal or informal rule-like constraints on behavior that are enduring and tend to carry some normative value
 - Huntington (1968): institutions are stable, valued, recurrent patterns of behavior. Organizations and procedures vary in their degree of institutionalization
 - Sociologists: define institutions much more broadly than political scientists 0 not just formal rules/procedures/norms, but moral templates that provide "frames of meaning"
 - o Is Harvard an institution? Marriage? A plurality or proportional representation electoral system? Harvard's 7 minute rule?
 - o What makes institutions sticky and slow to change?
- Getting back to the N&W piece, how did England manage to credibly commit?
 - o veto players, property rights, checks and balances
 - o Why were capital markets so important? What do you need to have an efficient capital market (credible commitment)
 - o What is the causal story between capital and growth?
- What are "good institutions"? How do you get "good institutions"

[take a break and come back to A&R]

- Joan presents her article, which goes leads nicely into the discussion of virtuous and vicious circles
- What is a vicious circle? What is a virtuous circle?
 - o What is the relationship between political and economic institutions?
 - o What are inclusive and exclusive institutions? What do A&R say about their role in promoting economic growth and prosperity?
- How do you get into one of these circles? Does the catalyst matter?
 - o Exogenous forces: colonialism, IMF, American security policy
- What would it take to move out of a bad equilibrium into a good one? Think about the factors reinforcing the bad equilibrium [when elites directly allocate resources to high productivity activities that they themselves control. Second type is when institutions permit the development if somewhat inclusive economic institutions – elites don't totally monopolize power. –what is the role of citizens in all this?]
- Do you buy this argument? What don't you like about it? (path dependency? – Raquel brought this up)
 - o Does China fit into this model?
 - o Given the importance of money in politics in the US, do you think the US is falling into a vicious circle? A&R clearly put the US in the "inclusive" institutions side...
 - o What else might be driving "good" outcomes v. "bad" outcomes? (Mouad had some ideas here.)
- What are the implications for developing countries today? Do you agree with Professor Bates that "we shouldn't be doing anything in the developing world"? Is the whole enterprise of international development worthless?