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Abstracts

Emergence And Persistence Of Inefficient States

Daron Acemoglu, MIT, Davide Ticchi, University of Urbino and Andrea Vindigni, Princeton University

We present a theory of the emergence and persistence of inefficient states based on patronage politics. The society consists of rich and poor. The rich are initially in power, but expect to transition to democracy, which will choose redistributive policies. Taxation requires the employment of bureaucrats. By choosing an inefficient state structure, the rich may be able to use patronage and capture democratic politics, so reducing the amount of redistribution in democracy. Moreover, the inefficient state creates its own constituency and tends to persist over time. Intuitively, an inefficient state structure creates more rents for bureaucrats than would an efficient one. When the poor come to power in democracy, they will reform the structure of the state to make it more efficient so that higher taxes can be collected at lower cost and with lower rents for bureaucrats. Anticipating this, when the society starts out with an inefficient organization of the state, bureaucrats support the rich, who set lower taxes but also provide rents to bureaucrats. We obtain that the rich-bureaucrats coalition may also expand the size of bureaucracy "excessively" so as to generate enough political support. The model shows that an equilibrium with an inefficient state is more likely to arise when there is greater income inequality, when bureaucratic rents take intermediate values, and when individuals are sufficiently forward- looking. (JEL: P16, H11, H26, H41)

A Structural Model Of Turnout And Voting In Multiple Elections

Arianna Degan, UQAM and Antonio Merlo, University of Pennsylvania

This paper develops a unified approach to study participation and voting in multiple elections. The theoretical setting combines an "uncertain-voter" model of turnout with a spatial model of voting behavior. We apply our framework to the study of turnout and voting in U.S. presidential and congressional elections. We structurally estimate the model using individual-level data for the 2000 elections, and quantify the relationships between observed individual characteristics and unobserved citizens' ideological preferences, in- formation, and civic duty. We then use the estimated model, which replicates the patterns of abstention, selective abstention, split-ticket voting, and straight-ticket voting observed in the data, to assess the effects of policies that may increase citizens' information and sense of civic duty on their turnout and voting behavior. (JEL: D72)

Artificial States

Alberto Alesina, Harvard University, William Easterly, New York University and Janina Matuszeski, Oxfam America

We define "artificial states" as those in which political borders do not coincide with a division of nationalities desired by the people on the ground. We propose and compute for most countries in the world two measures of the degree to which borders may be artificial. One measures how borders split ethnic groups into two separate adjacent countries. The other measures the straightness of land borders, under the assumption the straight land borders are more likely to be artificial. We then show that these two measures are correlated with several measures of political and economic success. (JEL: H0, O1, O2, O4, O5)

Product Market Regulation, Firm Selection, And Unemployment
Gabriel Felbermayr, Hohenheim University and Julien Prat, IAE-CSIC

This paper analyzes the effect of Product Market Regulation (PMR) on unemployment in a search model with heterogeneous multiple-worker firms. In our setup, PMR modifies the distribution of firm productivities, thereby affecting the equilibrium rate of unemployment. We distinguish between PMR related to entry costs and PMR that generates recurrent fixed costs. We find that: (i) higher entry costs raise the rate of unemployment mainly through our novel, (ii) higher fixed costs decrease unemployment through the selection effect and increase it through the competition effect analyzed in Blanchard and Giavazzi (2003). Firm heterogeneity magnifies the impact of both types of regulatory costs. We propose econometric evidence consistent with the unemployment effects of sunk versus recurring costs. (JEL: E24, J63, L16, O00)

The Tradeoff Between Performance And Quitting In High Power Tournaments
Chaim Fershtman, Tel Aviv University and Uri Gneezy, UC San Diego

Tournaments may be characterized by the performance they induce as well as by the rate of quitting and dropouts of participants. While most of the attention in the literature is on the performance induced by high power incentives, there are many daily situations in which dropouts and quitting are a major concern. Using a field experiment in schools and a model of dynamic tournament we examine the effect of different levels of rewards on the rate of quitting. Our experiment indicates that there is a possible tradeoff between performance and quitting. Strong incentives tournaments induced participants to exert more effort and exhibit a better performance but, at the same time, it induces a higher rate of quitting. We present a multi-stage tournament model that give rise to a similar characterization. (JEL: C93, C73, D8, J30)

Country Portfolios In Open Economy Macro Models
Michael B. Devereux, University of British Columbia and Alan Sutherland, University of St Andrews

This paper develops a simple approximation method for computing equilibrium portfolios in dynamic general equilibrium open economy macro models. The method is widely applicable, simple to implement, and gives analytical solutions for equilibrium portfolio positions in any combination or types of asset. It can be used in models with any number of assets, whether markets are complete or incomplete, and can be applied to stochastic dynamic general equilibrium models of any dimension, so long as the model is amenable to a solution using standard approximation methods. We first illustrate the approach using a simple two-asset endowment economy model, and then show how the results extend to the case of any number of assets and general economic structure. (JEL: E52, E58, F41