

# INSTITUTIONS AND THE LOCATION OF OIL EXPLORATION

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## **Abstract**

We provide evidence that institutions have a strong influence over where oil and gas exploration takes place. We utilise a global dataset on the location of exploration wells and national borders. This allows for a regression discontinuity design with the identifying assumption that the position of borders was determined independently of geology. In order to break potential simultaneity between borders, institutions and activities in the oil sector, we focus on drilling that occurred after the formation of borders and institutions. Our sample covers 88 countries over the 1966-2010 period. At borders, we estimate more than twice as much drilling on the side with better institutional quality. Sub-sample analyses reveal effects of institutions on exploration drilling in both developing and high income countries, as well as across three types of operating companies. We find that the supermajor international oil companies are particularly sensitive to institutional quality in developing countries. Our findings are consistent with the view that institutions shape both exploration companies' incentives to invest in drilling and host countries' supply of drilling opportunities. (JEL: F21, O13, O43, Q32)

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