Structural Transformation and Economic Growth (STEG)

# STEG Virtual Course on "Key Concepts in Macro Development"

## Thursday 18 March 2021

## Supplemental lecture: Political Institutions and development

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Presentation Slides

Video

Q: What is congestion?

> A: Public goods that are not completely nonrival. Nonrivalry means that you're use doesn't impact my use. Knowledge is the classic nonrival good. Roads are a little less nonrival... if you use the road, a public good, it slows me down because of traffic, for example.

Q: Just wondering if government input could lead to higher or lower transaction costs, and whether less of such input is preferred to more?

> A: I will take a crack, but if more is needed we can ask Leonard at the end. Clearly, investments in infrastructure (roads, telecommunications, perhaps even electricity) could lower transaction costs directly by lowering trade costs. At the same time, government regulation/red tape (or bribes!) could increase transaction costs. What the optimal level of infrastructure or regulation might be would depend on the particular question. The obvious question is of course about the optimal level of government involvement.
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> A: I'm really interested in this regulation part, lately I read some authors blaming Europe's excessive regulation to its productivity slow down.

Q: In the Burgess et al paper, what is the reason for using the population in 1965 as the population every year for the counterfactual road building exercise? That would kind of assume that the population growth rate is the same in every city. Is it because there are less assumptions needed?

> A: Okay, I don't know this paper, but let me take a guess. They are interested in how populations influence infrastructure spending, but obviously infrastructure spending can also influence populations patterns (e.g., people moving across districts to where the infrastructure and roads are built). So it is appealing to a sense of Granger causality by using initial levels.