

SYLLABUS: Economics of Conflicts

LMU, Summer Semester 2018

Jana Cahlíková, Marco Serena

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1. Practical information

Instructors:

Jana Cahlíková (jana.cahlikova@tax.mpg.de) and Marco Serena (marco.serena@tax.mpg.de);
Senior Research Fellows at the Max Planck Institute for Tax Law and Public Finance

When: 16h-19:30h every Tuesday from April 10 to July 10, 2018 (except May 1st and June 19th).

Where: Richard-Wagner-Str. 10, D016.

Language: English

Office hours: By appointment via email

Relevant course information: <http://janacahlikova.net/teaching/lmu-conflict-economics>

Please send an e-mail to Jana if you plan to attend the first lecture. This is for logistical purposes only.

2. Course Introduction

Aim of the course: *The world had experienced hundreds of armed conflicts since the end of the Second World War. Civil wars are important contributors to poverty and underdevelopment. In recent decades, conflicts have increasingly become of interest to economists. In this course, we aim to introduce students to the economics of conflicts, with half of the course focusing on economic theory and half on empirical economics. From a theoretical perspective, conflicts are economic, social and political problems where agents exert costly efforts while competing over a certain resource. The course covers theoretical materials that help make sense of the conflict contexts; namely, conflicts are modeled as Tullock contests or all-pay auctions. The empirical part of the course covers evidence on the causes and mechanisms of conflict (economic shocks, ethnic bias, leaders, etc.) and conflict resolution. The aim is to introduce the topics, as well as to present different data sources and a range of empirical methods that can be applied to the analysis of conflicts, including micro-econometrics, economic experiments and RCTs.*

Prerequisites: Principles of economics, basic game theory, introductory econometrics

Grading: Final written exam for Master students (on July 17th, 2018). Final exam determines the final grade. No academic dishonesty will be tolerated. For an accreditation as a doctoral class, doctoral students have to submit a (research) paper and give a presentation at the seminar.

Attendance: Attendance in lectures is not mandatory, yet highly recommended.

Literature: The course is based on academic papers rather than a textbook. A non-exhaustive list of resources is available below. Required readings will be announced in advance during lectures and will be available on the course website (password protected – password will be given out during lectures)

3. Detailed schedule

3.1. THEORETICAL PART (TAUGHT BY MARCO SERENA ON 17.4., 24.4., 15.5., 22.5., 12.6., 10.7.):

➤ **Theory I (17.4., 24.4.): Introduction + Tullock contests**

- Introduction to contest models
- Tullock contests as a model of conflicts
- Tullock contests and discussion of properties, extensions and Nash equilibrium; rent extraction, asymmetric prizes, multiple players, participation, multiple prizes, heterogeneous abilities, sequence of moves and sensitivity to efforts

➤ **Theory II (15.5., 22.5.): All-pay Auctions**

- The all-pay auction as a model of conflicts
- The all-pay auctions and discussion of properties, extensions and Nash equilibrium; with 2- or n-players, with complete or private valuations.

➤ *Resources for Theory I-II:*

- Corchòn, L. C. (2007). "The Theory of Contests: A Survey," *Review of Economic Design*, 11(2), 69-100.
- Konrad, K. (2009). "Strategy and Dynamics in Contests," Oxford University, Press Inc. (New York).
- Corchòn, L. C. and Serena, M. (2018). "Contest Theory: A Survey," *Handbook of Game Theory and Industrial Organization*, Edward Elgar, 2018.

➤ **Topics of Applied Theory (12.6., 10.7.)**

- Ethnic conflict (application of Tullock contests):

- Esteban, J. and Ray, D. (2008). “On the Saliency of Ethnic Conflict,” American Economic Review, 98 (5), 2185-2202.
- Lobbying conflict (application of all-pay auctions):
 - Baye, M. R., Kovenock, D., de Vries, C. G. (1993). “Rigging the lobbying process: an application of the all-pay auction,” American Economic Review, 83 (1), 289-294.
- Mass killings (application of Tullock contests):
 - Esteban, J., Morelli, M. and Rohner, D., (2015) “Strategic Mass Killings,” Journal of Political Economy, 123 (5), 1087-1132.

3.2. EMPIRICAL PART (TAUGHT BY JANA CAHLÍKOVÁ ON 10.4., 8.5., 29.5., 5.6., 26.6., 3.7.):

➤ Empirics I (10.4.): Introduction to conflict economics

- Types of conflicts, conflict incidence across the world and over time, costs of conflicts, possible causes, economic approach to study conflicts
- Introduction to the course
- Resources:
 - World Bank report “Breaking the Conflict Trap”. (Collier, P., Elliot, V. B., Heger, H., Hoeffler, A., Reynald-Querol, M., & Sambanis, N., 2003, <http://doi.org/10.1596/978-0-8213-5481-0>)
 - World Bank. 2011. World Development Report 2011: Conflict, Security, and Development. World Bank.
 - Blattman, C., & Miguel, E. (2010). Civil War. Journal of Economic Literature, 48(1), 3–57.
 - Data on Conflicts:
 - <https://www.prio.org/Data/Armed-Conflict/UCDP-PRIO/>
 - <http://ucdp.uu.se/#/>

➤ Empirics II (8.5.): Laboratory experiments on conflicts

- Introduction to experimental economics, experimental research on contests, all-pay auctions and tournaments
- Resources:

- Dechenaux, E., Kovenock, D., & Sheremeta, R. M. (2014), “A survey of experimental research on contests, all-pay auctions and tournaments,” *Experimental Economics*, 18(4), 609–669.
- K. Abbink, Klaus (2012), “Laboratory experiments on conflict,” in M.R. Garfinkel, S. Skaperdas (Eds.), *The Oxford Handbook of the Economics of Peace and Conflict*, Oxford University Press, New York (2012), pp. 532-553
- Selected papers from the above.

➤ **Empirics III (29.5.): Economic determinants of conflicts**

- Fearon’s bases for conflict (“irrationality”, selfish and myopic rationality, rationality with asymmetric information or commitment problems), competition for resources, economic shocks and conflicts
- Resources:
 - Fearon, J. D. (1995). *Rationalist Explanations for War*. *International Organization*, 49(3), 379–414.
 - Miguel, E., Satyanath, S. and E. Sergenti (2004), “Economic Shocks and Civil Conflict: An Instrumental Variables Approach,” *Journal of Political Economy* 112, 725-753.
 - Miguel, E. (2005), “Poverty and Witch Killing,” *Review of Economic Studies* 72: 1153-1172.
 - Bazzi S., and Blattman C. (2014), “Economic Shocks and Conflict: Evidence from Commodity Prices.” *American Economic Journal: Macroeconomics* 6 (4): 1–38.
 - Dube, O. and Juan Vargas (2013), “Commodity Price Shocks and Civil Conflict: Evidence from Colombia,” *Review of Economic Studies*, 80(4): 1384-1421.
 - Guidolin, Massimo and Eliana La Ferrara (2010), “The Economic Effects of Violent Conflict: Evidence from Asset Market Reactions,” *Journal of Peace Research*, 47(6): 671-84.
 - Prediger, Sebastian, Bjorn Vollan, and Benedikt Herrmann (2014), “Resource Scarcity and Antisocial Behavior,” *Journal of Public Economics* 119: 1–9.

➤ **Empirics IV (5.6.): Ethnic conflicts**

- Ethnic diversity and economic performance; ethnic fractionalization vs. ethnic polarization; evolutionary roots of conflict; parochial altruism
- Resources:
 - Alesina, A., & La Ferrara, E. (2005). “Ethnic Diversity and Economic Performance,” *Journal of Economic Literature*, 43(3), 762–800.

- Fearon, J., & Laitin, D. (2003). “Ethnicity, Insurgency, and Civil War.” *The American Political Science Review*, 97(1), 75–90.
- Esteban, Joan, Laura Mayoral, and Debraj Ray (2012), “Ethnicity and Conflict: Theory and Facts,” *Science* 336 (6083): 858–65.
- Bernhard, Helen, Urs Fischbacher, and Ernst Fehr (2006), “Parochial Altruism in Humans.” *Nature* 442 (7105): 912–15.
- Choi, Jung-Kyoo, and Samuel Bowles (2007), “The Coevolution of Parochial Altruism and War.” *Science* 318 (5850): 636–40.
- Abbink, K., Brandts, J., Herrmann, B., & Orzen, H. (2010). “Intergroup Conflict and Intra-Group Punishment in an Experimental Contest Game,” *American Economic Review*, 100(1), 420–447.

➤ **Empirics V (26.6.): The role of leaders and media in conflicts**

- Political economy of conflicts; media, propaganda and conflicts; leaders and conflicts; leaders and unethical conduct
- Resources:
 - Glaeser, Edward L. (2005), “The Political Economy of Hatred.” *Quarterly Journal of Economics* 120 (1): 45–86.
 - Yanagizawa-Drott, David (2014), “Propaganda and Conflict: Evidence from the Rwandan Genocide.” *Quarterly Journal of Economics* 129 (4): 1947–94.
 - DellaVigna, Stefano, Ruben Enikolopov, Vera Mironova, and Maria Petrova (2014), “Cross-Border Media and Nationalism : Evidence from Serbian Radio in Croatia.” *American Economic Journal: Applied Economics* 6 (3): 103–32.
 - Voigtländer, Nico, and Hans-Joachim Voth (2015), “Nazi Indoctrination and Anti-Semitic Beliefs in Germany.” *Proceedings of the National Academy of Sciences* 112 (26): 7931–36. doi:10.1073/pnas.1414822112.
 - Satyanath, Shanker, Nico Voigtlaender, and Hans-Joachim Voth (2017), “Bowling for Fascism: Social Capital and the Rise of the Nazi Party.” *Journal of Political Economy*, 125(2): 478-526.
 - d’Adda, Giovanna, Donja Darai, Nicola Pavanini, Roberto A Weber (2017), “Do Leaders Affect Ethical Conduct?,” *Journal of the European Economic Association*, 15(6): 1177–1213.
 - Bauer, Michal, Jana Cahlikova, Julie Chytilova, Tomas Zelinsky (2016), “Social Contagion of Ethnic Hostility,” *CERGE-EI Working Paper Series*, No. 567.

➤ **Empirics VI (3.7.): Conflict resolution**

- Evidence from the lab (side payments, random devices); development aid and civil war; RCTs in conflict resolution (economic resources, employment and behavioral interventions), rebuilding the community
- Resources:
 - Lab experiments (side payments, random devices) in Dechenaux et al. (2014)
 - Nunn, Nathan, and Nancy Qian (2014), “U.S. Food Aid and Civil Conflict,” *American Economic Review*, 104(6):1630-1666.
 - Fearon, J. D., Humphreys, M., Weinstein, J. M., & Fearon, B. J. D. (2009). Can Development Aid Contribute to Social Cohesion after Civil War? Evidence from a Field Experiment in Post-Conflict Liberia. *American Economic Review: Papers & Proceedings*, 99(2), 287–291.
 - Berman E., Felter J. H., Shapiro J. N., and Callen M. 2011. “Do Working Men Rebel? Insurgency and Unemployment in Afghanistan, Iraq and the Philippines.” *Journal of Conflict Resolution* 55 (4): 496–528.
 - Blattman, Christopher and Jeannie Annan (2016), “Can Employment Reduce Lawlessness and Rebellion? A Field Experiment with High-Risk Men in a Fragile State”, *American Political Science Review*, 110(1): 1-17.
 - Blattman, Christopher, Julian C. Jamison, and Margaret Sheridan. 2017. “Reducing Crime and Violence: Experimental Evidence from Cognitive Behavioral Therapy in Liberia.” *American Economic Review*, 107(4): 1165-1206.
 - Bauer, M., Blattman, C., Chytilová, J., Henrich, J., Miguel, E., & Mitts, T. (2016), “Can War Foster Cooperation? ” *Journal of Economic Perspectives*, 30(3), 249–274.
 - Cilliers, Jacobus, Oeindrila Dube, Bilal Siddiq (2016), “Reconciling after civil conflict increases social capital but decreases individual wellbeing,” *Science*, 352(6287): 787-794.