

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

**When:** 16:15h-19:30h every Tuesday from April 10 to July 10, 2018 (except May 1<sup>st</sup>, May 22<sup>nd</sup>, and June 19<sup>th</sup>).

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

**Exam:** 17.07.2018, 16:00-18:00, HGB (Geschwister-Scholl-Platz 1), D209.

**Language:** English

**Office hours:** By appointment via email

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

## 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 17<sup>th</sup>, 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., part of 15.5): 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, sensitivity to efforts, destructiveness of war, group contests and sharing rule
- Subgame perfect Nash equilibrium and backward induction; introduction and application to contests

##### **➤ Theory II (part of 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.)**

- Peace agreements (application of Tullock contests):
  - Carmen Beviá, Luis C. Corchón, “Peace agreements without commitment”, *Games and Economic Behavior*, Volume 68, Issue 2, March 2010, Pages 469-487

➤ **Solving the Problem Set (10.7.)**

- If time allows, also n-players all-pay auction with private valuation

**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**

- Introduction to the course
- Trends in armed conflicts; Impact of armed conflicts; Who benefits from conflicts? Can war foster cooperation?
- Resources (\*=main resources):
  - \*Blattman, C., & Miguel, E. (2010). Civil War. *Journal of Economic Literature*, 48(1), 3–57.
  - \*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.
  - \*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.
  - World Bank report “Breaking the Conflict Trap”. (Collier, P., Elliot, V. B., Hegre, 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.

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

- Introduction to experimental economics; Laboratory experiments on conflicts.
- Resources (\*=main resources):
  - \*Sheremeta, R. M. (2013). Overbidding and heterogeneous behavior in contest experiments. *Journal of Economic Surveys*, 27, 491–514.
  - \*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.
  - 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.

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

- Poverty, economic shocks and conflicts: macro evidence and micro evidence; Rationalist explanations for war; Design your own experiment.
- Resources (\*=main resources):
  - \*Miguel, E., Satyanath, S. and E. Sergenti (2004), “Economic Shocks and Civil Conflict: An Instrumental Variables Approach,” *Journal of Political Economy* 112, 725-753.
  - \*Sarsons, H. (2015), “Rainfall and conflict: A cautionary tale,” *Journal of Development Economics* 115, 62-72.
  - \*Prediger, Sebastian, Bjorn Vollan, and Benedikt Herrmann (2014), “Resource Scarcity and Antisocial Behavior,” *Journal of Public Economics* 119: 1–9.
  - \*Dube, O. and Juan Vargas (2013), “Commodity Price Shocks and Civil Conflict: Evidence from Colombia,” *Review of Economic Studies*, 80(4): 1384-1421.
  - Fearon, J. D. (1995). Rationalist Explanations for War. *International Organization*, 49(3), 379–414.

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

- Ethnic and conflict: theory and facts (ethnic fractionalization and ethnic polarization); Parochial altruism; Social norms and ethnic hostility.
- Resources (\*=main resources):
  - \*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.
  - \*Bursztyn, L., G. Egorov, and S. Fiorin (2017): “From Extreme to Mainstream: How Social Norms Unravel” (RR in AER).
  - Chen Y, Li SX (2009), “Group identity and social preferences,” *American Economic Review*, 99(1):431457.

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

- Leaders, propaganda and conflict: evidence from Nazi Germany and Rwanda; Social capital, peers and conflict: evidence from Nazi German and Eastern Slovakia.
- Resources (\*=main resources):
  - \*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.
  - \*Yanagizawa-Drott, David (2014), “Propaganda and Conflict: Evidence from the Rwandan Genocide.” *Quarterly Journal of Economics* 129 (4): 1947–94.
  - \*Blouin Arthur and Sharun W. Mukand (2018), “Erasing Ethnicity? Propaganda, Nation Building and Identity in Rwanda”, *Journal of Political Economy*, forthcoming.
  - \*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.
  - \*Bauer, Michal, Jana Cahlikova, Julie Chytilova, Tomas Zelinsky (2018), “Social Contagion of Ethnic Hostility,” *Proceedings of the National Academy of Sciences* 115 (19), 4881-4886.
  - Glaeser, Edward L. (2005), “The Political Economy of Hatred.” *Quarterly Journal of Economics* 120 (1): 45–86.

- 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.

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

- Food aid, development aid and conflict; Employment and conflict; Therapy and conflict.
- Resources (\*=main resources):
  - \*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.
  - Cilliers, Jacobus, Oeindrila Dube, Bilal Siddiq (2016), “Reconciling after civil conflict increases social capital but decreases individual wellbeing,” *Science*, 352(6287): 787-794.