

Homework for Session 9

1. Are democratic institutions likely to be good for economic performance? In what ways do you think democracy might be good or bad for national economic performance?
2. In what ways might an autocrat have good or bad effects on an economy?
3. Consider the following example. A large coal deposit is found in the interior of a country, and estimates suggest that it will cost \$1 Billion to build a mine. To bring the coal to market, a further \$1 Billion investment in a railway is required.

Should the railway be built, the coal in the mine will be sold for \$2 Billion. If the railway is not built, the coal will be worthless.

Similarly, if the railway and coal mine are built, an additional \$2 Billion in revenues will flow to the railway. However, if the coal mine is not built, then the railway will be worthless.

In this set-up, the expected profits from the project can be written as follows:

		Coal Mine	
		Build	Don't Build
Railway	Build	1,1	-1,0
	Don't Build	0,-1	0,0

- a. Do you understand where the payoffs come from? [Note that payoffs are written (expected profit to railway, expected profit to coal mine).]
 - b. What are the Nash equilibria of this game?
 - c. Will private firms necessarily succeed in building both the coal mine and the railway?
 - d. Is there a role for strong leadership here?
4. Does this kind of example shed light on the development experience of Hyderabad in India?
 5. How would you characterize Charles Taylor's rule in Liberia? What is the fundamental problem that he posed for Liberia's development?