THEORY AND EMPIRICS OF ROOT CAUSES OF ECONOMIC PROGRESS

by

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The work presented in Table 4.2A of Chapter 4 is part of a joint workshop paper entitled, “Institutions and Trade: Competitors or Complements?” co-authored with Steve Dowrick and Jane Golley. My contribution in this section is 60%. The rest of the thesis is my own original work. An earlier version of the work presented in Section 4.3 of Chapter 4 is published in volume 11 of the journal *Applied Economics Letters* in 2004 as a research article entitled “Deep Determinants of Economic Growth.” This article is authored by me.

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Sambit Bhattacharyya
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“No new light has been thrown on the reason why poor countries are poor and rich countries are rich.”

Abstract

The thesis revisits the debate over the relative contribution of root causes (institutions, geography, trade openness, religion and culture, and knowledge) in economic growth. The results show that institutions, market proximity, malaria and Catholicism have direct effects on economic progress. Catholicism is associated with poor institutions and is not good for trade. Malaria is the most important factor for Africa. The Africa result is explained by an overlapping generations model which shows that high malaria incidence encourages households to consume more at the current period and save less for the future which leads to a poverty trap. Among institutions, ‘market creating institutions’ and ‘market stabilising institutions’ are important. Strong ‘market creating institutions’ characterized by the adequate protection of private property and contract enforcement are growth enhancing. ‘Market stabilizing institutions’ that ensures macroeconomic stability and does not undertake distortionary policies boosts investor confidence and are also good for growth. I notice that there is a growth maximizing level of ‘market regulation’ beyond which it increases red tape and kills the incentive for investment. The effect of ‘market legitimizing institutions’ is statistically insignificant.
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LIST OF ABBREVIATIONS

CID…………Centre for International Development
EDGES……Economic Development, Growth Economics and Sustainability
GDP………Gross Domestic Product
GMM………Generalised Method of Moments
HIEs………High Income Economies
HIPC………Heavily Indebted Poor Countries
ICRG………International Country Risk Guide
IMF………International Monetary Fund
IV………….Instrumental Variable
LIEs………Low Income Economies
LSM………Log Settler Mortality
OLG………Overlapping Generations Model
OLS………Ordinary Least Squares
PRS………Political Risk Services
PWT………Penn World Table
2SLS…….Two Stage Least Squares
WDI……..World Development Indicators