

Economics 970 (Sophomore Tutorial)
Harvard University
Department of Economics
Spring 2014

The Political Economy of International Conflict
Syllabus

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1 General Information

- Meeting time and location: Monday, Wednesday 2:30-4pm, Grays Hall 1
- Office hours: Wednesday 4-5pm
- Please check the syllabus regularly as it is subject to change (although I will not change readings less than a week before they are required and I will notify you of any change by email)

2 Description

This course investigates the causes of war and peace, using economic methodology: game theory and econometrics. Will China's rise be peaceful? Is the world becoming more peaceful? Do trade and/or democracy promote peace? Can the European Union survive without an external threat such as the Soviet Union? Could climate change lead to conflict between the US and Canada? The course should provide you with the knowledge and tools to try and answer these big questions. For a sampling of topics we covered in class last year, please visit the class blog: <http://politakos.wordpress.com/>

The course consists of four big blocks:

1. We will start by discussing the game-theoretic and econometric tools used in the conflict literature as well as the datasets available to test your theories.

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2. Afterwards, we will review current game-theoretic models of war.
3. Then we will discuss papers that are either purely empirical or combine game theory and statistical analysis. In this block we will discuss how domestic institutions, economic relations, identity and culture, terrorism and physical and cultural space affect war-proneness.
4. In the last few weeks, we will have a short conference where each of you will present drafts of your final paper. In this block we will also cover some related special topics such as models of democratization and the break-up of nations.

The course will familiarize you not only with current research on wars in economics journals, but also with related work in the political science literature. We will explore basic concepts such as the democratic peace theory, audience costs, the security dilemma and offensive realism throughout the course.

For the final paper, you will be required to build your own model, and also test it empirically (e.g. using some dataset we will have discussed) or one in-depth case study (in which case you will need to cite historical sources).

3 Prerequisites

The most important prerequisite is a keen interest in learning about the causes of war and peace. The coursewide prerequisites also apply: Ec 1010a/1011a and Ec 1010b/1011b (concurrent enrollment in the latter is fine), and a statistics course (Stats 100/104/110, AM 101 or Math 154).

4 Requirements

Attendance of classes is mandatory. You may miss one class without penalty, any further classes missed will be penalized by lowering your letter grade by one third (e.g. from A to $A-$ or from $A-$ to $B+$).

What matters most is the final paper you produce. It is worth 30% of the grade. Neither the model proposal nor the empirical exercise or even the presentation of your work in our little conference at the end of the semester is binding you to any topic, your final paper *can* be completely different. Ideally, in fact, it will be a little different as your ideas will evolve. However in research it is mostly true that nothing comes from nothing, so if your final paper is completely different from your previous ideas then you will not be able to use the feedback that you had received from your classmates and me.

In the final paper (as in the other assignments as well), I will put value on both hard work (e.g. you derive more variants of your models) and hard thinking (e.g. you have an original, creative and well-thought-out idea).

Your final grade will be made up of the following 8 parts:

4.1 Stata Problem Sets (10%)

These are four course-wide problem sets independent from the tutorial. The Stata sessions are on Feb 6th, Feb 18th, March 4th and March 25th. The problem sets are due on Feb 14th, Feb 26th, March 13th and April 2nd respectively.

4.2 Referee Report (10%)

Due Feb 12 (W)

You will need to write a referee report on either Gibler-Tir (2014) or Baliga-Lucca-Sjostrom (2011):

- D. Gibler and J. Tir. Territorial peace and democratic clustering. *Journal of Politics*, 76, 2014. <http://dmgibler.people.ua.edu/uploads/1/3/8/5/13858910/clustering.gibler.tir.pdf>
- S. Baliga, D. O. Lucca, and T. Sjostrom. Domestic political survival and international conflict: Is democracy good for peace? *Review of Economic Studies*, 78:458–86, 2011. Available at: <http://www.kellogg.northwestern.edu/faculty/baliga/htm/dempeace.PDF>

You should briefly summarize the paper then discuss what the major theoretical and empirical concerns are with the paper and how these problems could be tackled and how the paper could be improved. Here are a few suggestions about what to discuss. Start with the theoretical problems. Are the concepts clearly defined? Are actors, their interests and their interaction structure clear and plausible? Is there anything in the theory that does not make sense? Do you expect actors in real life to act according to the theory? Is the theory broad, or what is its scope? Can it be applied to each age and place, or do you think it is limited? If the scope is limited, what are the limits? How much does the theory tell you that you did not know before? On the empirical side ask questions like: ‘Do the results make sense?’, ‘Are there variables, concerns that the authors fail to address?’, ‘How robust is the evidence?’, ‘Are the empirical results capturing some process other than what the theory says?’, ‘Is the direction of causation clear and plausible?’ Finally, you can also investigate how tight the relationship between the theory and the empirics is: are there any other mechanisms that could be operating that would yield the same empirical results? You should also include a part where you write about possible extensions or future research based on the paper.

4.3 Presentation (10%)

Feb 19 (W) to April 16 (W)

Each of you will be required to present a paper that is either on the syllabus or is closely connected to the course material (and is approved by me). The presentation should be about 20 minutes. It should not be simply limited to an overview of the paper, but you should discuss the limitations and extensions of the paper. You should also write down your thoughts on these limitations and extensions in maximum 1 page, which is due before the class you are presenting in.

4.4 Model Proposal (10%)

Due Mar 10 (W)

Set up a model of conflict with well-defined players, strategies and interactional environment, and then solve the game with an appropriate solution concept. Derive at least one comparative static: how would changing one interesting parameter in the model would affect endogenous choice variables and equilibrium outcomes (e.g.

war/peace; share of the resource). Discuss the scope (time/place/circumstances) of your theory and situations in which you think it is particularly good/bad at describing reality, and why.

I suggest that after you are done writing your model, think about what shortcomings you would find in it if you wrote a referee report about it, then revise your theory accordingly.

Pages: no hard-and-fast rule, maybe around 4 pages, if you do all of the above in 1 page, no need to use a bigger font though. Feel free to further develop your ideas, the better the proposal, the better the feedback I can give you. But do not exceed a maximum of 8 pages.

4.5 Empirical Proposal (10%)

Due Apr 7 (M)

This is due after we had discussed the databases available (you can of course be creative and use a different database) and many papers with empirical results. This will need to include at least one regression and a critical evaluation of the results. The regression equation should be clearly stated, and you should include at least one table with your main results. You will need to specify for each independent/dependent variable where you get the data from and evaluate concept validity. Include a summary table of all the variables you use.

Ideally, your empirical proposal tests the comparative static derived in your model proposal. Even if you get opposite results, that will not lower your grade! Discuss results, and potential problems such as endogeneity and omitted variable bias. You will need to submit all files you have used such as data, program files and codes and make sure I can rerun it and check any results.

This assignment cannot be a case study, it needs to be statistics (in your final paper you may opt for a case study).

This should be no more than 4 pages, regression tables should be included and they do not count toward the 4 pages. In sum: specify briefly what hypothesis you want to test, discuss data and data quality succinctly and then evaluate your regression(s).

4.6 Presentation of your Paper (10%)

Apr 21 (M) or 23 (W)

Toward the end of the course, we will have a little conference organized around your papers. Each of you will also be assigned to be a discussant of a classmate's paper, to whom you should send your final slides at least 2 days in advance. Presentation of the paper will earn 5% of the grade, 5% will be earned through being a good (i.e. useful for the paper-writer) discussant and providing good feedback to others during the conference.

4.7 Class Participation (10%)

I will reward you for generally being well-prepared and raising interesting points during section.

4.8 Final Paper (30%)

hard deadline: May 5 (M) 5pm

This should be 15-18 pages. You will write a paper that makes an original contribution to our understanding of conflict. Your model can be a completely new model, or you can extend an existing one in an interesting way. Your empirical analysis should at least include one critically evaluated regression OR a case study of a war of your choosing. I allow you to do either because there is no consensus in the profession about which one is better, and in fact there is a lot of synergy if you want to use both (which you should not do in this course, it will be hard enough to do either of them well). If you choose the case study, you will be required to cite credible sources (e.g. historians; or if you choose a current case, then at least two experts: for instance, an Economist article, or an editorial with a distinct author or a blog-post by an expert). When writing your paper, use the same guidelines that I gave you for the theoretical and the empirical assignments. Once the paper is done, think about what you would write in your own referee report and revise the paper accordingly.

5 Late Policy

You can submit either the referee report, the model or the empirical exercise exactly 2 days (i.e. 48 hours) late with no questions asked or penalties, but only one of them, as long as you let me know (e.g. email me) before the deadline. The presentations, the Stata problem sets and the final paper cannot be late.

Generally, the penalty for lateness is the lowering of your letter grade by one third each day (e.g. from *A* to *A-* or from *A-* to *B+*). For the final paper, the penalty is a full grade each day (e.g. from *A* to *B*).

6 Academic Honesty

I will neither tolerate nor excuse plagiarism or cheating in any form. Discussing ideas and work-in-progress with others is an important and desirable part of the research process, but in the end, a student's assignment must be his or her own effort, written by the student, and ultimately based on his or her own thinking. All written assignments must use appropriate citation practices to acknowledge sources the student has consulted. For any questions about Harvard's stance on academic honesty, please consult the Academic Information section in the Harvard College Handbook for Students.

7 Schedule and Readings

7.1 The Tools (4 classes)

1. **Review of Game Theory (Nash equilibrium, backward induction, Subgame Perfect Equilibrium, repeated games),**

- recommended: M. Osborne. *An Introduction to Game Theory*. Oxford University Press, 2003, chapters 2-5, chapter 14

*Feb 3
(M)*

- review of approaches to international relations theory: S. Walt. International relations: One world, many theories. *Foreign Policy*, pages pp.29–46, 1998. <http://faculty.maxwell.syr.edu/hpschmitz/PSC124/PSC124Readings/WaltOneWorldManyTheories.pdf>

2. **Special Topics in Game Theory (Perfect Bayesian Equilibrium, signaling games, Markov Perfect Equilibrium),**

Feb 5
(W)

- R. Gibbons. An introduction to applicable game theory. *The Journal of Economic Perspectives*, 11:pp.127–49, 1997 <http://pluto.fss.buffalo.edu/classes/psc/fczagare/PSC%20504/Gibbons.pdf>
- recommended: M. Osborne. *An Introduction to Game Theory*. Oxford University Press, 2003, chapters 9-10
- recommended: D. Acemoglu and J. Robinson. *Economic Origins of Dictatorship and Democracy*. Cambridge University Press, 2006 section 5.6 or D. Fudenberg and J. Tirole. *Game Theory*. MIT Press, 1991, chapter 13.1

3. **Datasets (COW Militarized Interstate Disputes (MID), International Crisis Behavior (ICB), Global Database of Events, Language and Tone (GDELT), Polity, Eugene),**

Feb 10
(M)

Concepts discussed: republican liberalism, democratic peace, commercial liberalism, trade and peace

explore: www.correlatesofwar.org and <http://www.cidcm.umd.edu/icb/>, as well as <http://gdelt.utdallas.edu/data.html> and what will be very helpful (thanks to Scott Bennett and Allan Stam): <http://www.eugenesoftware.org/>

- M. R. Sarkees, F. W. Wayman, and J. D. Singer. Inter-state, intra-state, and extra-state wars: A comprehensive look at their distribution over time, 1816 1997. *International Studies Quarterly*, 47:pp.49–70, 2003
- <http://gdelt.utdallas.edu/data/documentation/ISA.2013.GDELT.pdf>

4. **Econometrics in Panel Data Analysis,**

Feb 12
(W)

referee report due

Concepts discussed: unbalanced panel data, fixed effects, random effects, clustering

- D. Gibler and J. Tir. Territorial peace and democratic clustering. *Journal of Politics*, 76, 2014. <http://dmgibler.people.ua.edu/uploads/1/3/8/5/13858910/clustering.gibler.tir.pdf>
- S. Baliga, D. O. Lucca, and T. Sjostrom. Domestic political survival and international conflict: Is democracy good for peace? *Review of Economic Studies*, 78:458–86, 2011. Available at: <http://www.kellogg.northwestern.edu/faculty/baliga/htm/dempeace.PDF>

Stata Problem set due

Feb 14
(F)

7.2 Game-Theoretic Models of War (5 classes)

7.2.1 One-Shot Two-Actor Models

1. **One-shot Bargaining Models of War I,** Feb 19
Concepts discussed: realism, liberalism, constructivism, anarchy, balance of power, focal point (W)

- J. D. Fearon. Rationalist explanations for war. *International Organization*, Vol. 49(No. 3):pp. 379–414, Summer 1995 <http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=4311168>
- Thomas Schelling's Nobel Prize lecture: http://www.nobelprize.org/nobel_prizes/economics/laureates/2005/schelling-lecture.pdf or T. C. Schelling. *The Strategy of Conflict*. Harvard University Press, 1960

2. **One-shot Bargaining Models of War II: uncertainty and issue indivisibility in bargaining,** Feb 26
Concepts discussed: misperceptions, spiral model, deterrence, brinkmanship (W)

- R. Powell. *In the Shadow of Power: States and Strategies in International Politics*. Princeton University Press, 1999, Chapter 3
- S. Baliga and T. Sjoström. The strategy of manipulating conflict. *American Economic Review*, Forthcoming, 2012. <http://www.kellogg.northwestern.edu/faculty/baliga/htm/provocation.pdf>

Stata Problem set due Feb 26
(W)

7.2.2 Repeated Two-Actor Models

3. **Repeated Bargaining Models of War: commitment problems, first-striker advantage, offense-defense balance, security dilemma** Mar 3
Concepts discussed: hegemonic stability, power transitions theory, institutions, reputation (M)

- R. Powell. *In the Shadow of Power: States and Strategies in International Politics*. Princeton University Press, 1999, Chapter 4
- R. Axelrod. The emergence of cooperation among egoists. *American Political Science Review*, 75:pp.306–18, 1981
- for the more mathematical-minded (optional): A. Rubinstein. Perfect equilibrium in a bargaining model. *Econometrica*, Vol. 50(No. 1):pp. 97–110, 1982

4. **War Initiation and Termination,** Mar 5
(W)

- D. Acemoglu and A. Wolitzky. Cycles of distrust: An economic model. *working paper*, 2012. <http://economics.mit.edu/files/7914>
- B. L. Slantchev. Borrowed power: Debt finance and the resort to arms. *American Political Science Review*, 106(4), November 2012. <http://slantchev.ucsd.edu/published/pdf/BorrowedPower-006A.pdf>

7.2.3 Multiple-actor Models

5. **Multiple unitary states as actors,** Mar 7
Concepts discussed: polarity, internal and external balancing, buckpassing, band- (F)
wagoning, balancing, chain-ganging

- J. Hirshleifer. Anarchy and its breakdown. *Journal of Political Economy*, 103:pp.26–53, 1995. <http://www.econ.ucla.edu/people/papers/Hirshleifer/Hirshleifer167.pdf>
- S. Chassang and G. Padroimiquel. Defensive weapons and defensive alliances. *American Economic Review*, 99:pp.282–86, 2009. <http://personal.lse.ac.uk/padro/defensiveWeaponsPaper.pdf>

7.3 Empirical Analysis of Game-Theoretic Models: Domestic and Foreign Policy Interactions (10 classes)

7.3.1 Domestic Institutions,

1. **Elites and Citizens,** Mar
model proposal due 10
Concepts discussed: audience costs, normative and institutional explanations (M)
for democratic peace

- B. Bueno de Mesquita, J. Morrow, R. Siverson, and A. Smith. An institutional explanation of the democratic peace. *American Political Science Review*, 93:pp.791–807, 1999
- A. Debs and H. E. Goemans. Regime type, the fate of leaders, and war. *American Political Science Review*, 104:pp.430–45, 2010

2. **Media and Public Opinion,** Mar
Concepts discussed: rally-around-the-flag phenomenon, diversionary war, me- 12
dia indexing hypothesis, soft news, CNN effect (W)

- M. A. Baum. Sex, lies, and war: How soft news brings foreign policy to the inattentive public. *American Political Science Review*, 96:pp.91–109, 2002
- N. S. Paola Conconi and M. Zanardi. Democratic peace and electoral accountability. *Working Paper*. [http://www.ecares.org/ecare/personal/conconi\\$/web/DP.pdf](http://www.ecares.org/ecare/personal/conconi$/web/DP.pdf)

Stata Problem set due Mar
13
(Th)

3. **Audience Costs,** Mar
24
(M)
- A. Downes and T. Sechser. The illusion of democratic credibility. *International Organization*, 66:pp.457–89, 2012. <http://www.polisci.wisc.edu/Uploads/Documents/IRC/Downes%20and%20Sechser.pdf>

- M. A. Baum and P. B. K. Potter. Looking for audience costs in all the wrong places: Electoral institutions, media access and democratic constraint. *Journal of Politics*, 2014. <http://www.hks.harvard.edu/fs/mbaum/documents/LookingForAudienceCoss.pdf>

4. **Intra-elite competition,** Mar
25
(Tue)
Concepts discussed: hardliners, softliners, cartelization, overexpansion, standard operating procedure, garrison state

- R. Putnam. Diplomacy and domestic politics: The logic of two-level games. *International Organization*, 42:pp.427–460, 1988
- M. O. Jackson and M. Morelli. Political bias and war. *American Economic Review*, 97:pp.1353–73, 2007

7.3.2 Economic Relations

5. **Economic Relations: Trade,** Mar
31
(M)
Concepts discussed: Heckscher-Ohlin model, Stolper-Samuelson theorem, guns vs. butter

- P. Martin, T. Mayer, and M. Thoenig. Make trade not war? *Review of Economic Studies*, 75:pp.865–900, 2008
- H. Hegre, J. Oneal, and B. Russett. Trade does promote peace: New simultaneous estimates of the reciprocal effects of trade and conflict. *Journal of Peace Research*, 47:pp.763–74, 2010

Stata Problem set due Apr 2
(W)

6. **Economic Relations: Interest groups,** Apr 2
(W)

- E. Gartzke. The capitalist peace. *American Journal of Political Science*, 51:pp.166–91, 2007
- B. Fordham. Revisionism reconsidered: Exports and american intervention in world war i. *International Organization*, 61:pp.277–310, 2007

7.3.3 Identity and Culture

7. **Ethnicity,** Apr 7
(M)
Concepts discussed: social identity theory, culture vs. identity, ethnicity culture of anarchy, norm, role theory

empirical proposal due

- J. D. Fearon and D. D. Laitin. Explaining interethnic cooperation. *American Political Science Review*, 90(4):pp715–735, December 1996

- E. L. Glaeser. The political economy of hatred. *Quarterly Journal of Economics*, pages pp.45–86, 2005

8. **Civil Wars and Ethnicity,** Apr 9
(W)
Concepts discussed: greed vs. grievance, ethnicity

- P. Collier and A. Hoeffler. Greed and grievance in civil war. *Oxford Economic Papers*, 56:pp.563–95, 2004
- J. D. Fearon and D. Laitin. Ethnicity, insurgency, and civil war. *American Political Science Review*, 97:pp.75–90, 2003

7.3.4 Terrorist groups

9. **Terrorism,** Apr 14
(M)

- E. Bueno de Mesquita. Quality of terror. *American Journal of Political Science*, 49:pp.515–30, 2005
- E. Bueno de Mesquita. Politics and suboptimal provision of counterterror. *International Organization*, pages pp.9–36, 2007

7.3.5 Diffusion

10. **Diffusion,** Apr 16
(W)
Concepts discussed: globalization, socialization, norm entrepreneur

- K. S. Gleditsch and M. D. Ward. Diffusion and the international context of democratization. *International Organization*, 60:pp.911–933, 2006
- B. Simmons and Z. Elkins. The globalization of liberalization: Policy diffusion in the international political economy. *American Political Science Review*, 98:pp.781–810, 2004

7.4 Presentations of Your Own Research (2 classes)

1. **Presentations I.** Apr 21
(M)

2. **Presentations II.** Apr 23
(W)

7.5 Modeling Domestic Politics (2 classes)

1. **Institutions,** Apr 28
(M)

- D. Acemoglu and J. Robinson. *Economic Origins of Dictatorship and Democracy*. Cambridge University Press, 2006 Chapters 2, 5

2. **Institutions and Globalization, Numbers of Nations** Apr 30
(W)

- D. Acemoglu and J. Robinson. *Economic Origins of Dictatorship and Democracy*. Cambridge University Press, 2006 Chapters 6, 10
- A. Alesina and E. Spolaore. On the number and size of nations. *Quarterly Journal of Economics*, pages pp. 1027–56, November 1997