

Econ 1910. Exam Spring 2025

- a) What is corruption? How would you distinguish between corruption among bureaucrats in the state administration and corruption among political leaders of the country?
- b) How would you argue that corruption harms the development of poor countries? Does corruption necessarily work as sand in the development machinery?
- c) Why does the incidence of corruption easily increase? How can the same administrative system give rise to either a stable low level of corruption or a stable high level of corruption?

Each question counts equally. All three questions should be addressed.

**Hints for the graders:**

- a) **Corruption is misuse of (political or administrative) power for personal gain. The distinction between political and bureaucratic corruption is determined by who performs the corrupt acts and to what extent they have a higher level of authority above them or not. Put bluntly, bureaucratic corruption may be mitigated by political supervision and suitable punishment, while fighting political corruption may require a fierce political competition.**
- b) **Here we expect a discussion of how it is difficult to implement necessary good development policies when either politicians, or bureaucrats, are corrupt. On the second part the candidate is expected to distinguish between corruption as oil versus sand in the development machinery and what circumstance can give rise to either. A reasoning where the power of the corrupt agents are captured by a monopoly model would fit. If the marginal costs of providing the service are close to zero (oil in the machinery); when the marginal costs of or high (sand in the machinery).**
- c) **There are several possible answers. The students have seen (and read) about a mechanism where the gains of being corrupt depend positively on how many others  $y$  are corrupt, i.e.  $G(y)$ , while there are moral costs of being corrupt with a bell-shaped distribution over the population of potentially corrupt agents. There might be two locally stable equilibrium levels of  $y$  where those who are corrupt cover their moral cost and those who are not corrupt don't cover their moral costs. The candidates should argue for  $G(y)$  and how it interacts with the S-shaped cumulative distribution of moral costs.**