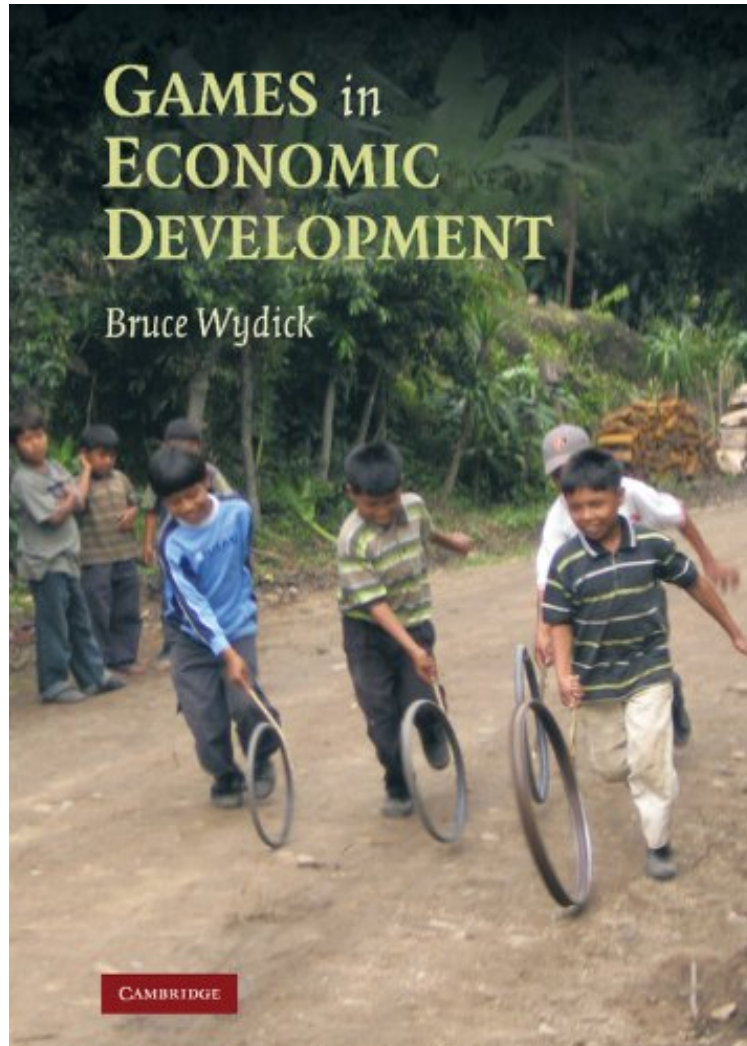


Games in Economic Development

Bruce Wydick

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Bruce Wydick : Games in Economic Development before purchasing it in order to gauge whether or not it would be worth my time, and all praised Games in Economic Development:

7 of 7 people found the following review helpful. One of the best textbooks on economics, period. By Hagios Abba Lerner had a penetrating criticism of economics. He said, "An economic transaction is a solved political problem. Economics has gained the title Queen of the Social Sciences by choosing solved political problems as its domain." In the recent past, neoclassical economics has been dominant. But it is based on many loaded assumptions that are simply untrue in the real world. One of the most relevant is the assumption of complete contracting and costlessly enforced property rights. In the real world, things like work effort and honesty cannot be effectively policed. Property rights cannot be taken for granted. The second loaded assumption is that neoclassical economists have also assumed that markets are in a state of equilibrium. In the real world markets are constantly out of equilibrium as consumer

preferences and technology change. Finally, neoclassical economics assumes that people make decisions as hyper-rational Mr. Spocks, that people are not influenced by the process of socialization and the choices of their friends and neighbors. These assumptions have led to a very poor effort at "colonizing" other social sciences and Lerner's criticism. But it looks like the economists are going to have the last laugh. The tools of evolutionary game theory can be used to understand markets that are out of equilibrium. The tools of social learning and identity economics can be used to model how people's preferences are shaped by their culture. And both of these tools can be applied to the study of moral behavior and social norms, which lead to the development of property rights. All of these trends are clearly explained in this book using simple examples from game theory. This book could be thought of as the economics of social norms. Wydick starts with coordination games. You may know them as the stag hunt and the battle of the sexes. One of the great virtues of this book is that Wydick uses meaningful examples from the real world research of economic development. The battle of the sexes game is about a couple deciding where to spend the evening. The man wants to go to the boxing match, but the woman wants to go to the ballet. I've always found these contrived examples unhelpful. Wydick uses corruption. Suppose an entrepreneur applies for a license to start a business. He can choose corrupt behavior and offer a bribe, or honest behavior and not offer a bribe. The bureaucrat faces the same choice. He can choose corrupt behavior and solicit a bribe, or honest behavior and not ask for one. The bureaucrat prefers the equilibrium of (corrupt, corrupt) but the entrepreneur prefers (honest, honest). How do they choose? Past performance is the best guide. If the local culture is corrupt then choosing the honest strategy will cause the application to be buried under red tape and forgotten. But if the local culture is honest then asking for a bribe would lead to outrage and perhaps an arrest. If everyone is honest then your best strategy is to be honest. If everyone is corrupt then your best strategy is to be corrupt. Each of these two situations is a Nash equilibrium because you cannot unilaterally improve your outcome. Nash equilibrium from coordination games can easily become focal points for social norms. Another nice thing about the book is that Wydick pares game theory with the current state of the empirical research. So the discussion of corruption (when the subject is revisited later on) also includes a discussion of Anne Kreuger's research on rent seeking on imports in India, Paulo Mauro's research on economic growth and corruption, and Knack and Keefer's research on trust and economic growth. The discussion of risk and social networks was fascinating. He uses a simple model of utility based on the square root to show that the poor are more affected by risk than the rich. That leads to a one-two punch. It means that the poor are, quite rationally, forced to sacrifice a larger percentage of their wealth finding ways to hedge against risk. Wydick shows how this can happen with both patronage relationships with wealthy locals and through solidarity networks with other peasants. Then, and this finding I thought was truly striking, he also shows that demand for safety is an economic good like food and shelter. Thus, despite being far more susceptible to risk, the poor are also rational to indulge in much riskier behavior in order to make more money. Wydick uses the example of driving fast. If you've ever been in the third world you know how scary the roads are. But if you follow the math of the models it is a purely rational behavior that maximizes utility. I'm leaving a lot out, but Wydick gradually builds up to larger themes. He also gets into social learning and information cascades. He shows how information cascades can lead to making systematically bad decisions. It can even lead people to ignore their own private evidence and follow the herd, and be purely rational for doing so. That is important in the context of economic development because these types of information cascades are how people settle on social norms. Then he moves onto identity economics and social capital and shows how people's choices of identity can influence how they will respond in various games and that this can lead to a creation of trust that helps economic development. Wydick is a Christian and discusses the role of religion in the creation of social capital and economic development. Another fascinating aspect of this was a pretty devastating rebuttal to the charge that religious hypocrisy undermines the idea that there is value in religion. It builds on the concepts of signaling and identity economics, but I won't get into the details here.

0 of 1 people found the following review helpful. Nice approach
By erny
A real application of strategic games to economic development. No bored math and lot of experiences. Just for decision people in government and business. You get material for putting your added value.

0 of 2 people found the following review helpful. Excellent
By carlos barreto
I like the topic because it is suitable to develop my research. Also is important point out the comfortable price. I love it!

Games in Economic Development examines the roots of poverty and prosperity through the lens of elementary game theory, illustrating how patterns of human interaction can lead to vicious cycles of poverty as well as virtuous cycles of prosperity. This book shows how both social norms and carefully designed institutions can help shape the 'rules of the game', making better outcomes in a game possible for everyone involved. The book is entertaining to read, it can be accessed with little background in development economics or game theory. Its chapters explore games in natural resource use; education; coping with risk; borrowing and lending; technology adoption; governance and corruption; civil conflict; international trade; and the importance of networks, religion, and identity, illustrating concepts with numerous anecdotes from recent world events. Comes complete with an appendix, explaining the basic ideas in game theory used in the book.

"Games in Economic Development presents a unified view of the difference between the rich countries and the third

world. The rich countries have institutions that counteract many different co-ordination failures that plague the third world. Bruce Wydick explains those failures theoretically, and he illustrates them beautifully with many colorful and convincing examples. Some of these are from his own experience in Guatemala. Yes, this is what economic development is all about." - George Akerlof, Nobel Laureate in Economics, 2000, University of California at Berkeley

"Drawing from a voluminous literature, this book illustrates a number of important economic concepts with simple game theory examples. The tone is student-friendly, the presentation insightful and entertaining...an excellent companion to courses in the economics of development and institutional change, and relevant reading for development practitioners." - Marcel Fafchamps, Oxford University

"Game theory explains how rational, far-seeing individuals left to their own devices may fail to achieve social rationality. The emergence of game theory shifted the focus of development economics from relationships of production to relationships among people. Bruce Wydick's book provides a lively introduction to the game-theoretic perspective on economic development. Telling examples explain why public school teachers in poor countries are so often absent, why deworming programs that could make everyone better off fail, why rational farmers may adopt the wrong technology, and how corruption becomes entrenched. A broad and up-to-date survey of patterns of interaction that contribute to the persistence of poverty or create an escape hatch." - Karla Hoff, Senior Research Economist, The World Bank

"In *Games in Economic Development*, Bruce Wydick begins to bring to life the academics of game theory with the practicalities of economic development in the field. The work provides practitioners with a fresh and relevant framework for evaluating dilemmas faced in the field of economic development and comprehending options for interventions. It breaches the divide between academic theory and practical development issues in a way that sheds understanding and clarity to the discussion of the subject." - Jim Reiff, CEO - Growing Opportunity Finance (India), member of the Opportunity International Network

About the Author
Bruce Wydick is Professor of Economics at the University of San Francisco, where he has taught since 1996, after completing his Ph.D. at the University of California at Berkeley. His research focuses on applications of game theory as well as empirical and experimental methods to poverty and development issues, especially to microfinance. Professor Wydick has published over a dozen articles in academic journals such as the *Journal of Development Economics*, *Economic Development and Cultural Change*, *World Development*, and the *Economic Journal* and has received grants and awards for his research from USAID, the Jesuit Foundation, the McCarthy Foundation, and the Pew Charitable Trust. He is co director of the master's program in international and development economics at the University of San Francisco, has served as a consultant on a number of research projects of the World Bank, and is actively involved in both field research and development work in the highlands of western Guatemala.