

# Modeling rent seeking activities: quality of institutions, macroeconomic performance and the economic crisis

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## Abstract

This paper studies the implications of institutional quality for macroeconomic performance. For this reason, we augment the standard real business cycle (RBC) model with rent seeking competition. The idea is that agents allocate a part of their effort time competing with each other for a fraction of a contestable prize. Our analysis considers alternative contestable prizes like firms' produced output, public transfers and tax revenues from the state, or the income of the others. The respective models are calibrated to a group of 12 Eurozone countries over the period 2001-2017. We first evaluate the ability of the alternative ways of modeling the contestable prize to match the data and thus investigate which contestable prize choice suits each country most. Secondly, motivated by the changes in government policy instruments observed in the data as a result of the 2007-8 world crisis, we investigate the interaction among macroeconomic performance and quality of institutions in the two sub-periods preceding and following the crisis. Two main findings are: first, the repercussions of the crisis have been milder in countries with better quality of institutions and second, countries with poor quality of institutions before the crisis, suffered a further deterioration in this quality in the crisis years.

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