

Elkhan Richard Sadik-Zada

Oil Abundance and Economic Growth

Logos Verlag Berlin



TABLE OF CONTENTS

PREFACE.....	iv
ACKNOWLEDGEMENTS.....	v
LIST OF ABBREVIATIONS.....	vi
LIST OF FIGURES.....	viii
LIST OF TABLES.....	ix
1. INTRODUCTION.....	1
1.1 <i>Purpose of the Study</i>	1
1.2 <i>Some Facts about Azerbaijan</i>	2
1.3 <i>Explanations and Notion of Resource Curse</i>	4
1.4 <i>Research Target</i>	7
1.5 <i>Econometric Rationale behind the Research Target</i>	8
1.6 <i>Research Design</i>	9
2. BEHAVIORAL MODEL OF RENT-SEEKING INCENTIVE.....	11
2.1 <i>Different Resource Types and Rent Seeking</i>	11
2.2 <i>Microeconomic Foundations of Infinite Planning Horizon</i>	16
2.3 <i>The Concept of State Elite and Relevance of “Elite Calculus”</i>	17
2.4 <i>Utility Maximization of the State Elite</i>	20
2.5 <i>Timing of Exploitation</i>	29
2.6 <i>The Effect of a More Even Distribution of the Oil Revenue over Time</i>	30
2.7 <i>Interim Conclusion</i>	36
3. IMPACT OF POLITICAL BARGAIN ON THE GROWTH OF THE CAPITALIST SECTOR.....	37
3.1 <i>Bargaining Transfers and its Impact on Industrialization and Welfare</i>	37
3.2 <i>Transparency and Accountability in Azerbaijan</i>	39

3.3	<i>Political Bargaining in Azerbaijan</i>	41
3.4	<i>Structural Change with Political Bargaining</i>	43
3.4.1	<i>Traditional Sector</i>	46
3.4.2	<i>Capitalist Sector</i>	48
3.4.3	<i>Lewis Model with Political Bargaining</i>	50
3.5	<i>Interim Conclusion</i>	54
4.	SECTORAL ELASTICITY MODEL OF RENT-SEEKING AND THE MAGNITUDE OF DEINDUSTRIALIZATION	57
4.1	<i>Rent Seeking Elasticity of Manufacturing Output as a Measure of Harm to the Manufacturing Sector</i>	58
4.2	<i>Elasticity Model with Tertiary Sector</i>	63
4.3.1	<i>Elasticity Model with Institutions</i>	66
4.4	<i>Interpretation of the Results</i>	68
5.	ASSESSMENT OF THE DIRECT LINKAGES IN THE INPUT- OUTPUT FRAMEWORK	71
5.1	<i>Concepts of Linkage</i>	71
5.2	<i>Direct Linkage Effects of Oil Extraction</i>	73
5.3	<i>Input-Output Analysis</i>	74
5.4	<i>Input-Output Analysis of Azerbaijani Economy</i>	78
5.4.1	<i>Data</i>	78
5.4.2	<i>Analysis of Linkage Effects in the Input-Output Framework</i>	80
5.5	<i>Conclusion</i>	83

6.	ASSESSMENT OF DUTCH DISEASE IN AZERBAIJAN.....	85
6.1	<i>Concept of Dutch Disease and Rent Seeking Effects.....</i>	<i>87</i>
6.2	<i>Basic Definitions of the Real Effective Exchange Rate.....</i>	<i>90</i>
6.3	<i>Behavioral Equilibrium Exchange Rate Approach.....</i>	<i>91</i>
6.4	<i>Econometric Specification.....</i>	<i>93</i>
6.5	<i>Econometric Strategy.....</i>	<i>94</i>
6.6	<i>Estimation of the Short- and Long-Run Relationship between Oil Prices and REER.....</i>	<i>97</i>
6.6.1	<i>Unit-Root Tests.....</i>	<i>97</i>
6.6.2	<i>Johansen Cointegration Test.....</i>	<i>104</i>
6.6.3	<i>Fitting a VECM.....</i>	<i>108</i>
6.7	<i>Robustness Checking.....</i>	<i>109</i>
6.8	<i>Impulse-Response Functions for VECM.....</i>	<i>111</i>
6.9	<i>Summary.....</i>	<i>112</i>
7.	ANALYSIS OF THE TOTAL GROWTH IMPACT.....	115
7.1	<i>A Quest for Congruent Theory-Based Empirical Analysis.....</i>	<i>115</i>
7.2	<i>Dual Sector Growth Model.....</i>	<i>118</i>
7.3	<i>Cross-Country Panel Estimation.....</i>	<i>123</i>
7.4	<i>Cross-Country versus Country-Specific Time-Series.....</i>	<i>132</i>
7.5	<i>Time-Series Analysis of Economic Growth in Azerbaijan.....</i>	<i>133</i>
7.6	<i>Critique of the Multi-Sector Model of Economic Growth.....</i>	<i>136</i>
	SUMMARY OF MAJOR RESEARCH FINDINGS.....	139
	BIBLIOGRAPHY.....	143