PHD THESIS ABSTRACT

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This thesis is a combination of two essays in development economics that explores the implication of income inequality and capital liberalization on economic development.

The first essay — Income Inequality, Rent-seeking and Economic Growth in Resource Abundant Countries, revisits the debate on the relationship between income inequality and economic growth. Prevailing research on the inequality-growth nexus suggests that inequality has a negative impact on economic growth of a country. In addition to the relationship between inequality and economic growth, this essay reviews studies that aim to ascertain the reasons behind the observation that countries who have abundant natural resources do not outperform resource-scarce countries – the so called resource curse hypothesis. Following the literatures, we hypothesize that inequality is more detrimental to economic performance in resource-abundant countries. Using the system generalized method of moments (GMM) dynamic panel estimation method and data set for the period 1988-2012, we compare the relationship between inequality and economic growth in resource and non-resource abundant countries. Our results confirm that the negative impact of income inequality on economic growth is amplified for countries that are endowed with abundant natural resources.

In the second essay — Greasing The Revolving Door: Foreign Aid, Governance and Private Capital Flows, we revisit the debate on the importance of capital liberalization on economic performance. Using Three-Stage Least Squares (3SLS) estimation technique that is proposed in Zellner and Theil (1962), we synthesize studies on the determinants of governance and capital flows. We find evidence of a revolving door relationship. Foreign aid has a negative impact on governance and, thereby, reduces capital inflows since poor governance hinders capital inflows. The need to fill the gap that is created by private capital outflows encourages inflow of foreign aid, which in turn harms governance. Our empirical result has a clear policy implication. Capital liberalization could grease a revolving door and handicap economic development in the aid receiving countries.