Referee report on the manuscript "Corruption and Political Competition" by R. Damania and E. Yalcin

Summary

This paper presents an interesting extension of the model of electoral competition in the presence of special interests groups by Grossman and Helpman (1996). The paper introduces the possibility that corrupt politicians might divert funds for personal purposes, rather than spending them exclusively on campagning activities. In this framework, the impact of more intense electoral competition on the amount of embezzlement is analyzed.

Comments

1

The question addressed by the paper is really interesting, and the use of a simplified version of the Grossman and Helpman model to model the problem seems very natural.

2

There is a technical problem with Proposition 3.4, one of the main results in the paper. The Proposition supposedly performs a comparative statics exercise by analyzing the impact of an increase in the parameter b in the equilibrium level θ of embezzlement of one of the two parties. Since the equilibrium levels θA and θB are determined simultaneously as the solution to first order condition (22) and to an analogous first order condition for party B, the proof does not appear to be correct. In fact, totally differentiating condition (22) one obtains the impact of a marginal change in b on the reaction function of party A, but not on the equilibrium level of embezzlement from party A.