

Corruption and production: a policy analysis.

Raffaella Coppier and Elisabetta Michetti

Abstract

This paper analyzes the relation existing between corruption, monitoring and output in an economy. By solving a dynamic game we prove that equilibrium output is a non-linear upper-hemicontinuous function (MP function) of the monitoring level implemented by the State on corruption, presenting 3 different equilibrium scenarios. According to our model, we analyze the optimal strategy depending on the policy objective of the State and we prove that if the State is budget constrained the optimal policy can lead the economy to an equilibrium with widespread corruption and maximum production.

JEL codes: C65, C73, D73, E23

keywords: Corruption, Dynamic game,
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Raffaella Coppier, Università di Macerata, dipartimento di Istituzioni Economiche e Finanziarie, Italy. E-mail: raffaellacoppier@unimc.it.

Elisabetta Michetti, Università di Macerata, dipartimento di Istituzioni Economiche e Finanziarie, Italy. E-mail: michetti@unimc.it.