

Hinweis / Hints:

Antworten können auf Englisch oder Deutsch gegeben werden.	Answers can be given in English or German.
Beachten Sie mögliche Wahlhinweise bei den Aufgabenstellungen.	Consider the choices offered between various questions.
Wird von den Wahlmöglichkeiten kein Gebrauch gemacht, erfolgt die Bewertung der bearbeiteten Aufgaben in der Reihenfolge der Aufgabenstellung.	If no usage is made of the choices offered, answers will be considered according to the sequence in which they are provided.
Zugelassenes Hilfsmittel: Elektronischer, nicht programmierbarer Taschenrechner und ein Wörterbuch Englisch-Deutsch.	Accepted tools: non-programmable calculator and a German-English dictionary.

Question 1: As expounded in the lecture, provide definitions for 4 of the following 7 terms (5 points each):

- extortion
- petty corruption
- embezzlement
- clientelist corruption
- lobbying
- gift-giving
- misuse

Question 2: Provide answers to two of the following three questions (10 points each):

- a) An increase in a country's overall salary for public servants may reduce corruption. Explain how such an impact may come about!
- b) Explain why the transactions costs of corrupt agreements are commonly larger than those of legal agreements!
- c) Public servants cannot openly advertise their willingness to supply a corrupt service. List and explain alternatives of how they may spread information about their corrupt offer!

Question 3: Model of disorganized corruption (30 points):

Investors are required to obtain three licenses for the operation of their business. These licenses are complements so that business operation is impossible unless all three are obtained. Three distinct symmetric departments ($i, i=1, 2, 3$) are in charge of issuing these licenses. Each of the departments requests a bribe in the form of a percentage (t_i) of the investment (X). Costs for providing and obfuscating are $1/3 t_i$. Investments (X) decrease with the total amount of bribes according to the following function:

$$X=3600 \cdot (1-t_1-t_2-t_3).$$

- a) The departments are controlled by a strong political party, forcing them to jointly maximize the total income from bribes. Determine the resulting level of investment!
- b) The departments maximize their income individually, each considering the other departments not to react to their own level of bribes. Determine the resulting level of investment!
- c) According to the model presented above, which type of behavior, organized or disorganized corruption, will be favored by an investor?
- d) A kleptocrat can perfectly organize corruption. What are the reasons beyond the scope of the above model that suggest welfare losses to be triggered by such a kleptocrat?