

The Determinants of Country Corruption: Unobserved Heterogeneity and Individual Choice- An empirical Application with Finite Mixture Models

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Abstract : Corruption in public offices is found to be the reflection of country-specific features, however, the exact magnitude and the statistical significance of its determinants effect has not yet been identified. The paper aims to propose an estimation method to measure the impact of country fundamentals on corruption, showing that covariates could differently affect the extent of corruption across countries. Thus, we exploit a model able to take into account different factors affecting the incentive to ask or to be asked for a bribe, coherently with the use of the Corruption Perception Index. We assume that discordant results achieved in literature may be explained by omitted hidden factors affecting the agents' decision process. Moreover, assuming homogeneous covariates effect may lead to unreliable conclusions since the country-specific environment is not accounted for. We apply a Finite Mixture Model with concomitant variables to 129 countries from 1995 to 2006, accounting for the impact of the initial conditions in the socio-economic structure on the corruption patterns. Our findings confirm the hypothesis of the decision process of accepting or asking for a bribe varies with specific country fundamental features.

Keywords : Corruption, Finite Mixture Models, Concomitant Variables, Countries Classification

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