



## ABSTRACT

**Title:** Quality of Government and EU regions: an impact assessment using the RHOMOLO model

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**Abstract:**

The importance of institutional quality for economic growth and development is becoming more widely studied in the scholarly literature, using econometric analysis at both country and regional level. What is still missing is a comprehensive analysis of the role of institutional quality in a general equilibrium framework that captures all the transactions between different agents of an economy – households, firms, and the government – as well as the spatial interactions among regions. Neglecting the general equilibrium effects may result in an incomplete assessment of the role of institutional quality on the macroeconomic performance of the economy. In this paper we fill this gap in our knowledge by resorting to the RHOMOLO dynamic spatial general equilibrium model for the EU regions to assess the macroeconomic impact of regional variations in quality of government. The model allows capturing how macroeconomic variables – GDP, employment, trade, and consumer prices among others – respond to a hypothetical improvement in regional government quality. The results stress how the performance of different public policies across regions of Europe is heavily conditioned by variations in regional government quality, meaning that greater attention to the quality of local institutions is necessary when formulation and applying public policies.

**Keywords:** *institutions, quality of government, regions, computable general equilibrium*

**JEL codes:** E02, R11, R13, C68