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*UNDERSTANDING TERRORISM FROM AN ECONOMIC  
PERSPECTIVE*

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## Understanding Terrorism from an economic perspective

**Abstract:** *Terrorism has emerged as a major threat to the contemporary society. Nation States are reliant on their counter-terrorism laws for checking terrorism and deterring terrorists. To understand the effectiveness of these counter terrorism laws, it is important to first understand the behaviour of terrorists, so as to comprehend what actions can dissuade terrorist's behaviour and decision to propagate violence. This paper will first look at behaviour of terrorist in decision making from an economic perspective, then will try to explore if there are any economic determinant of terrorism and finally, since the cost of terrorism is huge in terms of life, property etc, will discuss the status of counter-terrorism legislations in India. In the study it has been shown that terrorists are rational in decision making. It has also been found that economic determinants are not significant in determining terrorism; however, to a certain extent education does have a positive relation with participation in terrorism. Terrorism has huge cost, and hence it is essential to have counter-terrorist legislations. These legislations provides power to the state to deny operating space to terrorists and their supporters, deter them from carrying out terrorist acts, ensure the basic rights of the people, and uphold the Fundamental Rights enshrined in the Constitution.*

*JEL Classification: K14, K19, K40.*

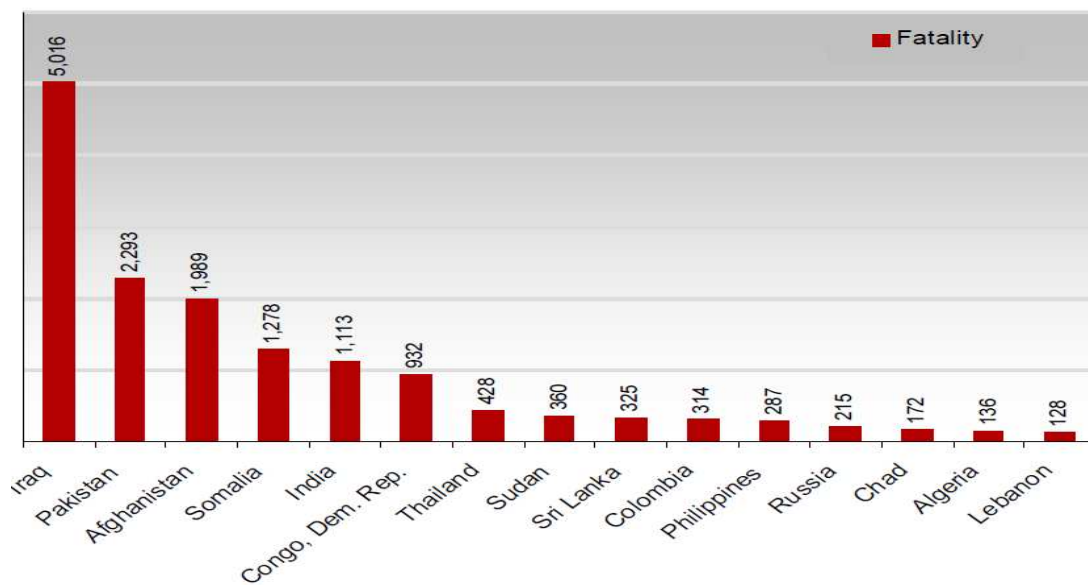
*Keywords: Terrorism, Terrorist behaviour, Rational behaviour, Economic determinants of terrorism, Counter-terrorism laws, Deterrence.*

# Understanding Terrorism from an economic perspective

## Introduction:

According to a report by National counterterrorism center, 2008 approximately 11,800 terrorist attacks against non-combatants occurred in various countries during 2008, resulting in over 54,000 deaths, injuries and kidnappings. Terrorism represents a growing problem as illustrated by the statistics given in the figures 1 and 2 below.

Figure 1: Deaths by country in the year 2008

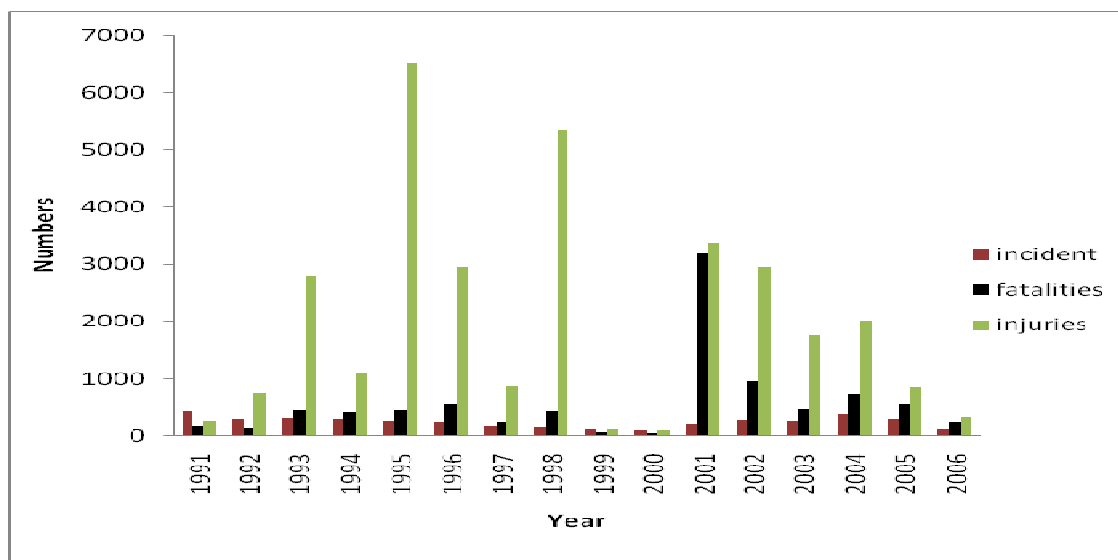


Source: 2008 NCTC Report on Terrorism

Figure 2: Worldwide Terrorism<sup>1</sup>

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<sup>1</sup> Data is available till 2006



Source: RAND/MIPT, *RAND Terrorism Chronology Database* and *RAND-MIPT Terrorism Incident Database*

Terrorism is a scourge of the contemporary world. Despite its decline, terrorism still poses a real threat to nations world-wide. As can be shown from Figure 2 that terrorism has followed a cyclical pattern; hence, recent downturn is apt to be followed by an upturn. With this increasing number of terrorist incidents, injuries and fatalities, world concern about terrorism has also increased. Governments of almost all countries are trying to frame policies for abatement of terrorism. Although, terrorism has fallen significantly in the last decade however, there are no signs of permanent abatement (see figure2). Many of the economists (like Krueger, Bloomberg, Sandler etc) and philosophers and intellectuals (like Walzer) are trying to explore the reasons for the same. However, for understanding the reason of existence of terrorism, it is very important to understand the root cause of terrorism and also the behaviour of a terrorist. We often hear people saying that decision of participating in terrorism is driven by poverty, unemployment, inequality etc. In this paper we will try to look into whether these economic factors are playing any significant role in influencing their decision of participation in terrorism or not. We will first examine factors which influences terrorist. In the next section we will look into the behaviour of a terrorist and their occupational choices from an economic perspective. Economists like Krueger (2003, 2004, 2007) consider that participation in terrorism is just a special application of occupational choice model. So in this section we will analyze terrorism according to occupational

choice model. Third section will deal with the economic determinants of terrorism. Fourth section will discuss the impact of terrorism on things other than human life. In the fifth section, we will look into the possible means of deterring terrorism and the deterrence policies taken by the Indian government. The paper will end with conclusion and policy suggestions.

## **2. Terrorists: Are they rational?**

Normally when we talk about a “rational human behaviour” we assume certain definite behaviour from an individual. It is assumed that all rational individuals are motivated by a self interest. They seek to maximize their senses of personal well-being, or utility, an objective that includes not only the satisfaction derived from consuming goods and services purchased on the market, but also the psychic pleasure associated with the attainment of any other desired end. Hence, actions such as providing aid and comfort to family and friends, conferring charity on strangers or supporting a revolutionary cause fall within the scope of the rationality assumption. For a rational individual with a limited budget the problem is to select the particular combination of market and non-market goods that yields the greatest possible level of satisfaction, at least in the individuals own judgement.

Let us examine a terrorist behaviour on the basis of this rationality model. For a terrorist, his/her target could be wide, but the resources commanded by the terrorist are not sufficient to affect the wide target. Every terrorist faces a budget constraint, they has to deploy money, arms or manpower effectively so as to maximise terrorist’s net return. This is how most of the economists like Brock, et al. (2004), Caplan (2006) and Sandler and Daniel (2003) justify the rationality of a terrorist act.

As mentioned earlier, participation of terrorism is just a special application of occupational choice; it should be guided by a rational choice made by the terrorist. Occupational choice of a terrorist is not as simple as choosing a profession like Medical, engineering or teaching etc. It is not that individual choose this profession because they think that this will maximise their personal utility. It is not that these people born with an idea of destruction and from the very beginning they wanted to join this “occupation”. They are also human beings who want to live happy and prosperous life satisfying their preferences. These preferences are not significantly different from other

“common” people’s preferences. Then why terrorist chooses this “occupation”? Isn’t their occupational choice a rational choice?

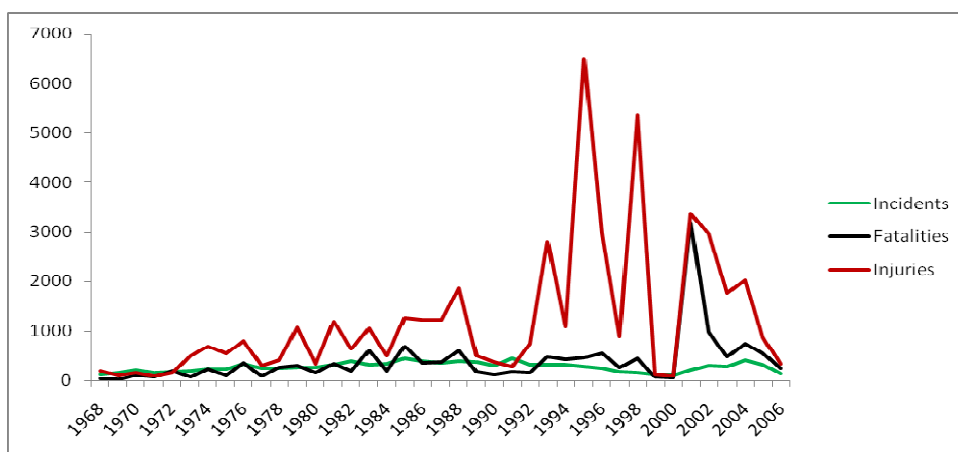
We cannot define the rationality of their choice from a narrow perspective of self utility maximisation. But we need to look slightly beyond this narrow perspective. One of the important shortcomings of narrow rational choice perspective is that while defining rationality we make an important assumption that individual’s maximizes their own utility given their preferences. However, as Sen (Sen 2002) argues the link between preference and choice over an individual’s personal sphere plays a crucial role. Individuals maximise their utility given their preference only while making decision on one’s own personal sphere that is not affecting others, however, while making decision in public sphere he/she might not act according to his/her preferences. He illustrated this using a simple example: suppose there is a person who prefers peaches to apple and he encounters the fruit basket going round the table dinner. There happens to be only one peach but many apples in the basket. In this situation the choice is not purely personal choice for him, since his taking the peach would leave some with no choice at all. The person has the opportunity to grab the peach with a sigh of relief that the basket got to him in the nick of time. But suppose he does not and nobly choose an apple. It is not clear that in his choice he is acting irrationally. Same logic can be held true when an individual takes a decision about joining a terrorist group and is not entirely depend on the direct utility of the person. The choices of an individual do not depend on the preferences of an individual but also on the sphere in which the choices is made. To illustrate, take example of Palestinian suicide bombers: despite of high level of education and good economic condition, some of them chooses to become a suicide bomber even though they very well know that this is not going to maximise their utility. Sometimes people argue that psychological trauma and depression led them to choose this work, however, Caplan (2006) argued that the feeling of fighting for their “people” is the dominating force behind this kind of choices. Does it mean that their choice is not rational? No, it is rational. This persons choice in this case cannot be seen to be in his personal sphere since it effects others (at least he perceives). He thinks that he may not get a benefit from the act but others (say the community) or the next generation will benefit. Hence, narrow self interest behaviour doesn’t work here.

Having established that decisions and the occupational choice of terrorist is rational, we will now try to examine the economic determinants of terrorism. This section will try to give evidences based on existing literature.

### 3. Economic determinants of terrorism:

Since 1990s, terrorism has emerged as a major concern for the world. Most of the terrorist incidents were result of hate crime<sup>2</sup>. As can be seen from the graph below, prior to 1990s the number of incidents, fatalities and injuries were all low compared to recent period because the focuses of attacks were quite limited. Probably because of that there was not much literature available on the causes of terrorism. One of the earliest study started with a remarkable book by Arthur Raper titled *The Tragedy of Lynching* in 1933(Krueger, 2007). However, the focus of the book was on the economic determinant of hate crime.

Figure 3:



RAND/MIPT, *RAND Terrorism Chronology Database* and *RAND-MIPT Terrorism Incident Database*

Raper assembled data on the number of lynchings each year up to 1929 in the South and on the price of an acre's yield of cotton and found a significant negative correlation between the two series. Thus, he concluded that when the economy was growing well, the number of lynchings was lower. Following this work a number of psychologists like Carl Hovland and Robert Sears argued that deprivation leads to aggression. People take

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The FBI defines a hate crime (a.k.a. bias crime) to be:

"a criminal offense committed against a person, property or society which is motivated, in whole or in part, by the offender's bias against a race, religion, disability, sexual orientation, or ethnicity/national origin." at: <http://www.fbi.gov/>



out their frustrations on others, the researchers hypothesized, when economic conditions are poor (Krueger, 2007).

However, the study was refuted by Green, McFalls, and Smith. In 2001, they published a paper that demolished the alleged connection between economic conditions and lynchings in Raper's data. They found that the correlation disappeared altogether when more years of data were added after 1929. They witnessed that after the Great Depression hit, the price of cotton plummeted and economic conditions deteriorated, yet lynchings continued to fall.

Nevertheless, prior to Green, McFalls, and Smith in 1988 Taylor in context of terrorism argued that "Neither social background, educational opportunity or attainment seems to be particularly associated with terrorism".

However, after 2000 with the rise in severity of terrorist attacks (see figure 3) many studies started coming up.

Krueger together with Maleckova started one of his pioneering works in 2002. In order to see the causal link between poverty or low education and participation in politically motivated violence and terrorist activities, they analyzed data on support for attacks against Israeli targets from public opinion polls conducted in the West Bank and Gaza Strip. Palestinians were asked whether they supported attacks on Israeli civilian and military targets, and about whether they considered certain incidents acts of terrorism. Breaking down the data by education and occupation indicated that support for violence against Israeli targets is widespread in the Palestinian population, and at least as great among those with higher education and higher living standards as it is among the unemployed and the illiterate.

Krueger (2007) performed a similar kind of analysis using data from public opinion survey in February 2004 in Jordan, Morocco, Pakistan, and Turkey (survey conducted by Pew Research) and data on the country of origin and target of hundreds of significant international terrorist attacks from 1997 to 2003. From the first data set he found that people with a higher level of education are in general *more* likely to say that suicide attacks against Westerners in Iraq are justified while income has no effect on people's opinion. From the second data set Krueger found that many socioeconomic indicators – including illiteracy, infant mortality, and GDP per capita – are unrelated to whether

people from one country become involved in terrorism. He also argued that against the general stereotype international terrorists are more likely to come from moderate-income countries than poor ones.

In another study to test the significance of poverty, malnutrition, inequality, unemployment, inflation, and poor economic growth as predictors of terrorism, Piazza (2006) employing a series of multiple regression analyses on terrorist incidents and casualties in ninety-six countries from 1986 to 2002. This study also found the same result that there is no significant relationship between any of the measures of economic development and terrorism.

Abadie (2006) also confirmed the result by looking at domestic terrorism in the United States.

Benmelech and Berrebi (2007) while studying terrorist activities of Palestinians from the West Bank and Gaza Strip compared suicide bombers to the whole male population aged 16 to 50 and found that the suicide bombers were less than half as likely to come from families that were below the poverty line. In addition, almost 60 percent of the suicide bombers had more than a high school education, compared with less than 15 percent of the general population.

All the above mentioned results are based on public opinion survey that might not be sufficient in reflecting the opinion of the actual militants and terrorists. For this purpose Nasra Hassan, a United Nations relief worker in the West Bank and Gaza Strip, conducted interviews with 250 militants and their associates who were involved in the Palestinian cause in the late 1990s and concluded that “none of them were uneducated, desperately poor, simple-minded, or depressed. Many were middle class and, unless they were fugitives, held paying jobs. Two were the sons of millionaires (as cited in Krueger, 2007)”.

Hence, from these literatures we understand that poverty is uncorrelated with terrorism and education is often uncorrelated with terrorism. Abadie (2004), Brock, Hess and Weerapana (2004), Green, McFalls, and Smith (2001), Krueger (2002, 2003, 2004), argued for the positive correlation of education and joining a terrorist organisation. They provided the reason for this positive correlation both from the supply side and the demand side. From the supply side political involvement requires some understanding

of the issues, and learning about those issues is a less costly endeavour for those who are better educated. On the demand side, terrorist organizations want to succeed. The costs of failure are high. So the organizations select more able participants—which again points to those who are better educated. However both supply side and demand has some serious flaws. Supply side argument will work when the terrorist will have some political motivation. Mostly the terrorist organisations are guided by political motivation but not the terrorist; it is found that in many cases the reason for joining these organisations is religious indoctrination, psychological trauma, resentment etc. Demand side argument also holds true only when there is large number of potential terrorists ready to join terrorist organisation. Then only these organisations will have options to choose educated people from among others.

Education does play a positive role (if not major) in influencing a person's decision on participation in terrorism.

Sen argues "more freedom gives us more opportunities to achieve those things that we value, and have reason to value. This aspect of freedom is concerned primarily with our ability to achieve, rather than with the process through which that achievement comes about." - (Sen, 2002, pp-585)

Education increases our ability to achieve, but not the opportunity to achieve things that we value. Education is not giving more freedom but is only increasing the ability to achieve certain things without giving an opportunity. When a person is illiterate or is less literate, his/her ability to achieve is less; his expectation is also according to his/her ability, so he/she requires less opportunity to achieve things. With increase in education, the ability of the person increases leading to an increase in expectation and this in turn lead to a search for more opportunities and freedom. When they don't get this opportunity and freedom in the civilized society through legal means, a feeling of revolt against the society start developing in their mind, and develop extremist ideas. However, it should be noted that with an increase in education not everyone develops an extremist idea. It works along with some other factors like the kind of expectation a person develops, society in which he/she lives, religious fanaticism, grievances, nationalism etc.

Developing an extremist idea and acting according to it are two different things. The above arguments may provide some reasons on why some people develop these kinds

of ideas, but how they actually start working for it. The terrorist groups use these ideas to mobilise people for their work. As argued in the literature (Abadie, Krueger and Maleckova, Sandler and Daniel), may be these terrorist groups have political motivation in their mind, but this might not be the motivation for individual terrorist. These groups make the potential terrorist to think that they have no alternative to terrorism. They make them think that they do not have the political strength to try anything else, and hence they use this weakness as their excuse. However, there are two types of weaknesses: the weakness of the movement vis-à-vis the opposing state and the movement's weakness vis-à-vis its own people (Walzer, 2004). These groups actually mobilise people by making them realise about the first type of weakness, the actual reason being the second one. The second reason is their inability to mobilize the nation, makes the terrorism the only option because it effectively rules out all the others: nonviolent resistance, general strikes, mass demonstrations, unconventional warfare, and so on.

#### **4. Deterrence of terrorist activity:**

Apart from human life terrorist activities have very high economic and social cost. Hence, these activities need to be deterred. There could be two ways to deter terrorism; 1) by deterring terrorist, 2) by deterring potential terrorist.

*How to deter a terrorist:* Terrorists are generally found to be strongly committed towards their job even after having full knowledge about the punishment they will get once caught. They incorporate this cost while making their occupational choice decision. Secondly, they get training in a way that for them shame of being unsuccessful and returning back is more costly than their life. So in most of the cases they confess the crime at the beginning of trial only. Confessing the crime also gives publicity to their organisation. However, government can introduce anti-terrorist policies and increase the security in order to increase the marginal resource cost of the input. The costs to the terrorists include the opportunity cost of time required to plan and execute the act. Moreover, government actions increase the likelihood of failure, apprehension and conviction as well as the penalties which discourages the terrorist to invest resources in these areas. However, for governments ensuring a total security is difficult due to

reasons like resource constrain. Hence, augmenting the security arrangement in one sector may induce terrorists to shift their targets to lower riskier projects. The substitution effect is especially problematic to policymakers since policies directed at thwarting one type of incident, say skyjackings, and may induce terrorists to substitute into a now relatively less costly incident, say kidnapping (Cauley and Iksoon, 1988). Although policy is effective in thwarting a specific type of terrorist event, the substitution effect may mean that it is not effective in curbing terrorism per se.

*How to deter potential terrorist:*

There are two ways in which we can deter potential terrorists

1) By making terrorism less attractive by lowering the publicity through media and newspapers. The main aim of terrorists is not to kill as many people as they can, but is to terrorise people through their act. With increasing publicity the extent of terror created and the coverage of people increases. Hence, if publicity is reduced the return to terrorist will also decrease.

2) By increasing the opportunity cost: Some authors like Frey and Luechinger (2007) advocates for increasing the opportunity cost of terrorism. Offering valuable alternatives raises the opportunity cost of terrorism and helps in deterring potential terrorists to join the group. There are various ways in which this can be done; providing them access to political process and welcoming repentants. This will help in breaking the psychological dependence of persons on the terrorist organizations. This will help only when the objective of the terrorist is motivated by some political gain, however, as discussed earlier political gain is not always the motivating force behind participation in terrorism. Sometimes religious indoctrination, psychological trauma and resentment also plays a major role. If the political motivation is not there this method of deterrence will not work.

However, even after these limitations, it is important to have laws against terrorist acts on three grounds: First, terrorists being rational decision maker do respond to deterrence measures. Even though it may not help in curbing terrorism completely, but it could affect their decision and may help in reducing terrorist activities. Secondly, it makes terrorism less attractive to potential terrorists. And finally, laws on speedy trials reduce the cost of trial. The cost of trial and security involves huge cost (e.g. 35 crores

spend on Kasab including security and other expenses, 1.5 each day, according to a report by The week, 16<sup>th</sup> may,2010), which is difficult for a developing country like India to afford.

In India, there has been no consistency in policies to deal with terrorism. The earlier two anti-terror laws, Terrorist and Disruptive Activities (Prevention) Act, 1985, 1987 (TADA) and Prevention of Terrorism Act, 2002 (POTA) proved very disappointing. Despite being upheld, with modifications, by the Supreme Court of India, while TADA was allowed to lapse, POTA was repealed. TADA, 1987 faced unprecedented protests from civil rights groups. They said the law violated fundamental rights and gave police unbridled powers with little accountability. In 1994, the Supreme Court, however, upheld the provisions of the law (Kartar Singh v. State of Punjab 1994 SCC Cr. 899), stating “freedom of individual must take second place to the requirement of safety of citizens” (Wilson and Ramana, 2006). The court directed specific modifications to temper the law. An important direction was the constitution of Screening or Review Committees to periodically scrutinise cases registered under the Act. Despite these safeguards, there were allegations of abuse of law by the executive (police) from different parts of the country, including from states not affected by terrorism. Hence, the law was allowed to lapse.

However, the attack on the World Trade Center in New York on September 11, 2001, and on the Indian Parliament on December 13, 2001 forced the government to enact another anti-terrorism law, The Prevention of Terrorism Act, 2002 (commonly called ‘POTA’).

Like TADA, the new legislation, too, attracted volumes of protests from various quarters. A civil rights organisation, People’s Union for Civil Liberties (PUCL), challenged its constitutionality before the Supreme Court. The court held that the “protection and promotion of human rights under the rule of law is essential in the prevention of terrorism”, involving “court’s responsibility” and that if human rights are violated in the process, it will be “self-defeating”. The judgement pointed out that “lack of hope for justice provides breeding grounds for terrorism” and, therefore, in the fight against terrorism “human rights” will have to be respected. In the wake of allegations of misuse and abuse of POTA, the law was repealed on September 21, 2004 (Wilson and Ramana, 2006).

For the last two years, there has been no specific counter-terrorism law in India. However, the recent terrorist attacks in New Delhi, Bangalore, Varanasi and the Mumbai serial blasts on July 11, 2006, indicates intensification of terrorist activities in the country and call for a need of law. Groups opposing specific counter-terrorism legislation argue that past experiences with counter-terrorism legislation have shown gross abuse of its provisions by police, grave violations of the fundamental rights of citizens and dismal conviction rates. The existing laws, they emphasise, are substantial enough to deal with cases of terrorism. But, potential misuse, or apprehension of misuse, cannot be the ground for not having a law at all. The emphasis should be on preventing misuse and abuse of anti-terror laws and severely punishing those found guilty. There were deficiencies in the implementation of TADA and POTA due to inexperience in handling terrorist cases, inadequate training to the investigating, prosecuting and judicial officers, and non-availability of tools of technologies to the officers. We need corrective action to fill these gaps (John and Ramana, 2006).

The mere existence of a law will not prevent recurrence of terrorist acts. But, an anti-terror law would have a deterring effect, at least to the potential terrorists, and provide the much-needed legal mechanism to punish terrorists and their supporters; including financiers and can help in establishing confidence in the mind of people towards law.

### **Conclusion:**

Terrorism is a scourge of the contemporary world. Terrorists make rational decision and do respond to legislations although these legislations are not sufficient enough to deter terrorism completely. Economic determinants like poverty, inequality have no considerable effect on decision of joining terrorism but education does have an influence to an extent. Terrorism has huge cost, and hence it is essential to have counter-terrorist legislations. These legislations provide authority to the state to check operating space of terrorists and their supporters, and further, deter them from carrying out terrorist acts. In order to successfully respond to terrorism through legal measures, the efforts of the state should necessarily strike a just balance between the Rights of the Individual, the welfare of the society and in deterring terrorists' activities.

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