

# Topics in Macroeconomics VII: Globalization, Economic Policy and Political Structure

**2018-2019 Academic Year**  
**Master of Research in Economics, Finance and Management**

## 1. Description of the subject

- Topics in Macroeconomics VII
  - Total credits: 3 ECTS
  - Type of subject: Optative
  - Department of Economics and Business
  - Teaching team: Jaume Ventura
- Code: 32101  
Workload: 75 hours  
Term: 3rd

## 2. Teaching guide

### Introduction

This course examines the effects of globalization on economic policy and political structure. The goal is uncover the deep structure of theoretical models, and to use these models to think about current policy debates. The course starts with a review of models of how the state is organized geographically. These models are then used to explain empirical trends on country formation and the emergence of international unions of various sorts. The last section of the course analyzes how globalization has affected selected aspects of policy making.

### Contents

All readings below will be discussed in class. Starred readings are those we shall focus on more deeply during lectures.

#### 1. Centralization or decentralization?

##### 1.1. Overview:

Oates, W. E. (1999). "An Essay on Fiscal Federalism", *Journal of Economic Literature*, 37, 1120-1149.

Treisman, D. (2007). *The Architecture of Government: Rethinking Political Decentralization*. Cambridge: Cambridge University Press.

Lockwood, B. (2006). "The Political Economy of Decentralization". In *Handbook of Fiscal Federalism*, edited by E. Ahmad and G. Brosio, 33-60. Cheltenham: Edward Elgar.

Panizza, U. (1999), "On the Determinants of Fiscal Centralization: Theory and Evidence", *Journal of Public Economics*, 74, 97-139.

##### 1.2 Preference aggregation:

\*Lockwood, B. (2002). "Distributive Politics and the Costs of Centralization", *Review of Economic Studies* 69, 313-337.

\*Ventura, J. (2019). "Sharing a Government", working paper.

Hatfield, J. and G. Padró (2012). "A Political Economy Theory of Partial Decentralization". *Journal of the European Economic Association*, 10, 605-633.

\*Besley, T., and S. Coate (2003). "Centralized versus Decentralized Provision of Local Public Goods: A Political Economy Approach", *Journal of Public Economics* 87, 2611-2637.

Harstad, B. (2010). "Strategic Delegation and Voting Rules". *Journal of Public Economics*, 94, 102-103.

Lockwood, B. (2008). "Voting, Lobbying, and the Decentralization Theorem". *Economics and Politics*, 20, 416-461.

Harstad, B. (2007). "Harmonization and Side Payments in Political Cooperation". *American Economic Review* 97, 871-889.

Crémer, J. and T. Palfrey (1999). "Political Confederation". *American Political Science Review*, 93, 69-83.

### 1.3 Agency problems and the role of information:

\*Besley, T. and A. Case (1995). "Incumbent Behavior: Vote-Seeking, Tax-Setting, and Yardstick Competition". *American Economic Review*, 85, 25-45.

Seabright, P. (1996). "Accountability and Decentralization in Government: An Incomplete Contracts Model" .*European Economic Review*, 40, 61-89.

Persson T. and G. Tabellini (2000). *Political Economics: Explaining Economic Policy*. Section 9.1. MIT Press, Cambridge, MA (2000)

Bardhan, P. and D. Mookherjee (2000). "Capture and Governance at Local and National Levels." *American Economic Review*, 90, 135-139.

\*Boffa, F., A. Piolatto, and G. Ponzetto (2016). "Political Centralization and Government Accountability". *Quarterly Journal of Economics* 131, 381-422.

\*Callander, S. and B. Harstad (2015). "Experimentation in Federal Systems". *Quarterly Journal of Economics*, 130, 951-1002.

## **2. Countries and unions**

### 2.1 Country formation:

\*Alesina, A. and E. Spolaore (1997). "On the Number and Size of Nations". *Quarterly Journal of Economics* 112, 1027-1056.

Alesina, A. and E. Spolaore (2003). *The Size of Nations*. Cambridge, MA: MIT Press.

\*Bolton, P. and G. Roland (1997). "The Breakup of Nations: A Political Economy Analysis". *Quarterly Journal of Economics* 112, 1057-1090.

Casella, A. (2001). "The Role of Market Size in the Formation of Jurisdictions". *Review of Economic Studies* 68: 83-108.

Casella, A. and J. Feinstein (2002). "Public Goods in Trade: On the Formation of Markets and Jurisdictions". *International Economic Review* 43: 437-462.

\*Alesina, A., E. Spolaore and R. Wacziarg (2000). "Economic Integration and Political Disintegration". *American Economic Review* 90, 1276-1296.

Alesina, A., E. Spolaore and R. Wacziarg (2005). "Trade, Growth and the Size of Countries". In *Handbook of Economic Growth*, Vol. 1, Part B, edited by P. Aghion and S. N. Durlauf, 1500-1542. Amsterdam: North Holland.

Alesina, A., E. Spolaore and R. Wacziarg (2005). "Trade, Growth and the Size of Countries". in *Handbook of Economic Growth*, Vol. I, P. Aghion and S. N. Durlauf eds., Amsterdam: North Holland.

\*Gancia, G., G. Ponzetto and J. Ventura (2018). "Globalization and Political Structure". Working paper.

Desmet, K., M. Le Breton, I. Ortuño-Ortín and S. Weber (2011). "The stability and breakup of nations: a quantitative analysis". *Journal of Economic Growth* 16, 183-213.

## 2.2 The role of international economic unions:

\*Bagwell, K. and R. Staiger (1999). "An Economic Theory of GATT". *American Economic Review*, 89, 215-248.

Bagwell, K. and R. Staiger (2002). *The Economics of the World Trading System*, Cambridge, MA: MIT Press.

Panagariya, A. (2000). "Preferential Trade Liberalization: The Traditional Theory and New Developments". *Journal of Economic Literature*, 38, 287-331.

Alesina, A., I. Angeloni and F. Etro (2005). "International Unions". *American Economic Review* 95, 602-15.

\*Gancia, G., G. Ponzetto and J. Ventura (2019). "A Theory of Economic Unions". Working paper.

\*Persson, T., and G. Tabellini (1996). "Federal Fiscal Constitutions: Risk Sharing and Moral Hazard". *Econometrica* 64, 623-646.

\*Persson, T., and G. Tabellini (1996). "Federal Fiscal Constitutions: Risk Sharing and Redistribution". *Journal of Political Economy* 104, 979-1009.

### 3. Globalization and economic policy

#### 3.1 Risk sharing:

\*Newbery, D. and Stiglitz, J. (1984). "Pareto Inferior Trade". *Review of Economic Studies*, 51, 1-12.

Eaton, J. and Grossman, G. (1985). "Tariffs as Insurance: Optimal Commercial Policy When Markets are Incomplete". *Canadian Journal of Economics*, 18, 258-272.

Dixit, A. (1987). "Trade and Insurance with Moral Hazard". *Journal of International Economics*, 23, 201-220.

Dixit, A. (1989). "Trade and Insurance with Adverse Selection". *Review of Economic Studies*, 56, 235-247.

Dixit, A. (1989), "Trade and Insurance with Imperfectly Observed Outcomes". *Quarterly Journal of Economics*, 104, 195-203.

\*Broner, F. and J. Ventura (2011). "Globalization and Risk Sharing". *Quarterly Journal of Economics*, 78, 49-82.

#### 3.2 Contract enforcement:

\*Dixit, A. (2003). "Trade Expansion and Contract Enforcement". *Journal of Political Economy*, 111, 1293-1317.

\*Broner, F., A. Martin and J.Ventura (2010). "Sovereign Risk and Secondary Markets". *American Economic Review*, 100, 1523-1555.

Broner, F. and J. Ventura (2016). "Rethinking the Effects of Financial Globalization". *Quarterly Journal of Economics*, 131, 1497-1542.

#### 3.3 The size of governments:

\*Rodrik, D. (1998). "Why Do More Open Economies Have Bigger Governments?". *Journal of Political Economy*, 106, 997-1032.

\*Epifani, P. and G. Gancia (2009). "Openness, Government Size, and the Terms of Trade". *Review of Economic Studies*, 76, 629-668.

### **Assessment**

There will be no final exam. Instead, students will submit a class project one week after the last lecture. This project should focus on a specific paper in the reading list, and it should not exceed 12 pages. The class project should provide either (i) an extension of the paper's model that generates a new theoretical result; or (ii) a new empirical test of

one of the paper's theoretical results. Hopefully, the class project might be the starting point of research leading to a chapter of a PhD dissertation.