

Topics in Macroeconomics I: Globalization, Economic Policy and Political Structure

2020-2021 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- Topics in Macroeconomics I
 - Total credits: 3 ECTS
 - Type of subject: Optative
 - Department of Economics and Business
 - Teaching team: Jaume Ventura
- Code: 32080
Workload: 75 hours
Term: 1st

2. Teaching guide

• Introduction

This course examines the effects of globalization on economic policy and political structure. Its goal is to uncover the deep structure of existing theoretical models and use them to think about current policy debates. The course starts with a review of models of the geographical organization of the state. These models are then used to explain empirical trends on country formation, the emergence of international unions, and the quality of economic policy.

• Contents

1. Centralization or decentralization?

1.1. Overview:

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

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*, F4, 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", *Journal of the European Economic Association*, 17, 1723-1752.

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.

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 Economics Review*, 85, 25–45.

Seabright, P. (1996). "Accountability and Decentralization in Government: An Incomplete Contracts Model", *European Economics Review*, 40, 61–89. (see also Section 9.1 of 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 Economics Review*, 90, 135-139.

Besley, T. and M. Smart (2007). "Fiscal Restraints and Voter Welfare", *Journal of Public Economics*, 91. 755-733.

*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, 911-1002.

2. Countries, International Unions and the Quality of Policy

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 (199F). "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 Economics Studies* 68: 83–108.

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

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

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

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

2.2 *The Role of International Unions:*

- *Alesina, A., I. Angeloni and F. Etro (2005). "International Unions" *American Economics Review* 95, 602–15.
- Gancia, G., G. Ponzetto and J. Ventura (2020). "A Theory of Economic Unions", *Journal of Monetary Economics*, 109, 10F-12F.
- *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.
- Broner, F., A. Martin and J. Ventura (2020). "On Public Spending and Economic Unions", *IMF Economics Review*, forthcoming.

2.3 *Globalization and the Quality of Economic Policy:*

- *Dixit, A. (2003), "Trade Expansion and Contract Enforcement", *Journal of Political Economy*, 111, 1293–1317.
- *Broner, F. and J. Ventura (2011). "Globalization and Risk Sharing", *Review of Economics Studies*, 78, 49-82.
- Broner, F., A. Martin and J. Ventura (2010). "Sovereign Risk and Secondary Markets" *American Economics Review*, 100, 1523-1555.
- Rodrik, D. (1998). "Why Do More Open Economies Have Bigger Governments?", *Journal of Political Economy*, 106, 97–1032.
- *Epifani, P. and G. Gancia (2009). "Openness, Government Size, and the Terms of Trade", *Review of Economics Studies*, F6, 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 below, 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. Ideally, the class project should be the starting point of research leading to a chapter of a PhD dissertation.

Grading system

0-10:

0-4.5	Fail
5-6	C
6.5-7.5	B
8-9	A
9.5-10	A+