

# Political Economy

3 ECTS

TERM 2

ELECTIVE

## Professor

Prof. Maria Petrova

Prof. Ruben Enikolopov

## Prerequisites to enroll

The students are expected to be familiar with standard econometric analysis and basic theoretical modeling techniques. A 6.5 GPA average from Term 1 is strongly recommended.

## Overview and objectives

In the last two or three decades, a thriving research program in political economics has shown that a proper understanding of economic phenomena in both developed and developing countries requires a consideration of the political and legal institutions in which markets operate. This course reviews key contributions in the field of political economics, both theoretical and empirical. It illustrates the key approaches to studying democratic politics, elections, and policy choice.

## Course outline

### 1. Introduction

- \*Acemoglu, Daron, and James Robinson (2006), Ch. 2.
- \*Persson, Torsten, and Guido Tabellini (2000), "Political Economics", Ch. 1\*
- Myerson, Roger (2000) "Economic Analysis of Constitutions," Chicago Law Review 67:925-940

### 2. Democratic politics

#### 2.1. Theoretical Framework

##### 2.1.1. Voting and elections

- \*Persson, Torsten, and Guido Tabellini (2000), Ch. 2-3
- Acemoglu, Daron, and James Robinson (2006), Ch. 6, 8
- Austen-Smith, David and Banks, Jeffrey (1999) Positive Political Theory: Collective Preference, Ann Arbor; University of Michigan Press.
- Lindbeck, Assar, and Weibull, Jorgen W. (1987) "Balanced-Budget Redistribution as the Outcome of Political Competition." Public Choice 52: 273-297.

##### 2.1.2. Political participation: elections

- Feddersen, Timothy J. (2004) Rational choice theory and the paradox of not voting. *Journal of Economic Perspectives* 18(1): 99-112.
- Feddersen, Timothy, and Alvaro Sandroni (2006) A theory of participation in elections. *American Economic Review* 96(4): 1271-1282.
- Feddersen, T. and W. Pesendorfer (1996) The Swing Voter's Curse. *American Economic Review*. 86(3): 408-424.
- McMurray Joseph (2013) "Aggregating Information by Voting: The Wisdom of the Experts versus the Wisdom of the Masses," *Review of Economic Studies*, 80(1), 277-312.

- \*Ali, S. Nageeb, and Charles Lin (2013) "Why People Vote: Ethical Motives and Social Incentives." *American Economic Journal: Microeconomics* 5(2): 73-98.

### **2.1.3. Politicians**

- \*Persson and Tabellini (2000) Ch. 4-5
- Besley, Timothy (2006), Ch. 3
- Besley, Timothy, 2005, "Political Selection" *Journal of Economic Perspectives*, 19(3), 43-60.
- Caselli, Francesco, and Massimo Morelli. 2004. "Bad Politicians." *Journal of Public Economics*, 88:759-782.

### **2.1.4. Special interest politics**

- Grossman, Gene M., and Elhanan Helpman (1994) "Protection for Sale." *American Economic Review* 84, 833-850
- Grossman, Gene M., and Elhanan Helpman (1996) "Electoral Competition and Special Interest Politics." *Review of Economic Studies* 63, 265-286.

## **2.2. Empirical Evidence on voting and elections**

### **2.2.1. Do politicians represent the median voter?**

- \*Lee, David, and Enrico Moretti, and Matthew J. Butler (2004). "Do Voters Affect or Elect Policies? Evidence from the U.S. House," *Quarterly Journal of Economics*, 119(3), 807-859.
- Husted, Thomas and Lawrence Kenny (1997). "The Effect of the Expansion of the Voting Franchise on the Size of Government", *Journal of Political Economy*, 105(1), 54-81.
- Miller, Grant (2008). "Women's Suffrage, Political Responsiveness, and Child Survival in American History", *Quarterly Journal of Economics*, 123(3), 1287-1327.
- \*Chattopadhyay, Raghavendra and Esther Duflo (2004). "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India," *Econometrica*, 72(5), 1409-1443.

- Pande, Rohini (2003). "Can Mandated Political Representation Increase Policy Influence for Disadvantaged Minorities? Theory and Evidence from India," *American Economic Review*, 93(4), 1132-1151.

### **2.2.2. Why people vote?**

- \*Coate, S., M. Conlin, and A. Moro (2008) "The performance of pivotal-voter models in small-scale elections: Evidence from Texas liquor referenda," *Journal of Public Economics*, 92(3): 582-596.
- Gerber, Alan S., and Donald P. Green (2000). "The Effects of Canvassing, Direct Mail, and Telephone Contact on Voter Turnout: A Field Experiment." *American Political Science Review* 94: 653-63.
- Gerber, Alan S., and Donald P. Green, and Christopher W. Larimer (2008). "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment." *American Political Science Review* 102(1): 33-48.
- Nickerson, David W. (2008). "Is Voting Contagious? Evidence from Two Field Experiments." *American Political Science Review* 102: 49-57.
- Krasno, Jonathan S., and Donald P. Green (2008). Do Televised Presidential Ads Increase Voter Turnout? Evidence from a Natural Experiment. *Journal of Politics* 70 (1): 245–261.
- Bond et al. (2012) "A 61-million-person experiment in social influence and political mobilization," *Nature*, 489 (7415), 295-298.
- Shineman, Victoria (forthcoming) "Incentivizing Participation Increases Political Information: Evidence from a Randomized Field Experiment," *British Journal of Political Science*.

## **2.3. Empirical Evidence on Accountability**

### **2.4.1. Political Accountability**

- \*Ferraz, Claudio, and Frederico Finan (2008) "Exposing corrupt politicians: the effects of Brazil's publicly released audits on electoral outcomes." *The Quarterly Journal of Economics* 123(2): 703-745.
- \*Ferraz, Claudio, and Frederico Finan (2011) "Electoral accountability and corruption: Evidence from the audits of local governments." *American Economic Review* 101(4): 1274-1311.
- Alt, James, Ethan Bueno de Mesquita, and Shanna Rose (2011) "Disentangling accountability and competence in elections: evidence from US term limits." *The Journal of Politics* 73(1): 171-186.
- Coviello, Decio, and Stefano Gagliarducci (2017) "Tenure in office and public procurement," *American Economic Journal: Economic Policy*, 9(3), 1-59.
- Alesina, Alberto, and Gerald Cohen 1999. "Political Cycles and the Macroeconomy." MIT press. Ch. 2,3,6.
- Akhmedov, Akhmed, & Ekaterina Zhuravskaya, 2004. "Opportunistic Political Cycles: Test in A Young Democracy Setting," *The Quarterly Journal of Economics*, MIT Press, vol. 119(4), pages 1301-1338, November.
- Shi, Min & Svensson, Jakob, 2006. "Political budget cycles: Do they differ across countries and why?" *Journal of Public Economics*, Elsevier, vol. 90(89), 1367-1389.
- Johnson, Joseph M. & W. Mark Crain, 2004. "Effects of Term Limits on Fiscal Performance: Evidence from Democratic Nations," *Public Choice*, vol. 119(12), 73-90, 04.
- Besley, T., Case, A., (1995) "Does Political Accountability Affect Economic Policy Choices? Evidence From Gubernatorial Limits," *Quarterly Journal of Economics* 110(3):769-98
- Besley, T., Case, A., (2003) "Political institutions and policy choices: Evidence from the United States", *Journal of Economic Literature* 41:7-73.

### 2.4.2. Political selection

- Andrew Beath, Fotini Christia, Georgy Egorov, Ruben Enikolopov (2016) Electoral Rules and Political Selection: Theory and Evidence from a Field Experiment in Afghanistan, *The Review of Economic Studies*, 83(3): 932–968.
- Jones, B. and B. Olken (2005), "Do leaders matter? National Leadership and Growth Since World War II," *Quarterly Journal of Economics*, 120(3) 835-864.
- Besley, Timothy. 2004. "Paying Politicians: Theory and Evidence." *Journal of the European Economic Association*, 2:193–215.
- Besley, Timothy, Jose G. Montalvo, and Marta Reynal-Querol (2011) "Do educated leaders matter?." *The Economic Journal* 121(554).
- Besley, Timothy, and Marta Reynal-Querol 2011 "Do Democracies Select More Educated Leaders?" *American Political Science Review*, 105 (3).

## Required activities

The course will be based on the discussion of the relevant research papers. Each week there will be two lectures and one seminar. Students will also be required to spend substantial amount of time reading the required papers outside the classroom.

## Evaluation

The grade will be a combination of referee reports/problem sets assigned as homework, participation in class, and the final research paper.

The weight in the final grade:

- referee reports and problem sets – 45%
- participation – 5%
- final paper – 50%

Getting a failing grade on either referee reports/problem sets or the final exam automatically results in a failing grade for the whole course.

Note that there will be no possibility to make up for a failing grade!

## Materials

### Recommended Textbooks

- Persson, Torsten, and Guido Tabellini (2000) Political Economics, MIT Press.
- Acemoglu, Daron, and James Robinson. (2006) Economic Origins of Dictatorship and Democracy, Cambridge U. Press.
- Besley, Timothy (2006) Principled Agents?: The Political Economy of Good Government, Oxford U. Press.
- Besley, Timothy, and Torsten Persson (2012) Pillars of Prosperity: The Political Economics of Development Clusters, Princeton U. Press.

## Competencies

- Capacity of utilization of the theoretical instruments of the to analyze situations of coherent form.
- Ability to use the appropriate (statistical and numerical) techniques.
- Ability to identify and successfully search for the data necessary for the analysis, either grossly or in the form of more elaborate databases.

- Ability to make independent judgments and defend them dialectically.
- Ability to write formal reports.
- Acquire a solid knowledge base for the study of quantitative issues.
- Ability to Recognize and know how to use the principles of econometrics and statistics.
- Ability to work with microeconomic analysis tools and their empirical and theoretical applications.

### **Learning outcomes**

- Students should get an overview of economic and financial theory.
- Students must be able to recognize theories and present arguments with precise examples.
- Students will have the ability to understand how markets work and explain their weaknesses.
- Students will acquire the technical tools that will allow them to perform the advanced analytics required in the second module as econometric methods.
- Students will know what the appropriate inference for each situation is.