

# Political Economics II – Spring 2016

## Objectives of Course

This course provides a selective overview of modern political economics to equip the students with a set of common research tools. Specifically, the course gives an introduction to the basic theoretical models, empirical methodologies, and substantive findings in political economics. It covers not only theoretical and empirical research, but also, importantly, the links between the two.

This basic course is followed in the next quarter by Political Economics III, a course which presents selected topics at the current research frontier.

## Schedule and Examination

The course has eight three-hour lectures. It also includes a number of theoretical and empirical exercises that will be discussed in separate sessions. Examination is through a written exam.

## Reading List

### *Background*

- \*Chapters 1 and 2 in Persson, T. and G. Tabellini [2000], *Political Economics: Explaining Economic Policy*, MIT Press (called P-T 2000 in the following).
- Merlo, A. [2006], “Whither Political Economy? Theories, Facts and Issues,” in Blundell, R., W. Newey and T. Persson (eds.) *Advances in Economics and Econometrics Theory and Applications, Ninth World Congress, Vol I*, Cambridge University Press, available at <http://www.eswc2005.com/>

### *Part 1, Lectures 1-3, Electoral Competition and Voter Behavior*

#### *Basic workhorse models*

- \*Chapter 3 and 7 in P-T 2000.
- Baron, D. [1994], “Electoral Competition with Informed and Uninformed Voters”, *American Political Science Review* 88, 33-47
- Ledyard, J. [1984], “The Pure Theory of Large Two-Candidate Elections,” *Public Choice* 44, 4-71.
- Lindbeck, A. and J. Weibull [1987], “Balanced-Budget Redistribution as the Outcome of Political Competition”, *Public Choice* 52, 195-209.

*Who votes?*

\*Ashenfelter, O. and S. Kelley [1975], "Determinants of Participation in Presidential Elections", *Journal of Law and Economics* 18, 695-733.

Wolfinger, R. and S. Rosenstone [1980], *Who Votes?*, Yale University Press.

*Who is informed?*

Delli Carpini, M. and S. Keeter [1996], *What Americans Know about Politics and Why It Matters*, Yale University Press.

*Who are the marginal voters?*

Johansson, E. [2003], "Intergovernmental Grants as a Tactical Instrument: Some Empirical Evidence from Swedish Municipalities", *Journal of Public Economics* 87, 2003, 883-915. Working paper version downloadable from <http://www.nek.uu.se/faculty/JohanssonE/wp.htm>

*Voter response to economic performance*

\*Markus., G. [1988], "The Impact of Personal and National Economic Conditions on the Presidential Vote: A Pooled Cross-section Analysis", *American Journal of Political Science* 32, 137-154. [JSTOR](#)

Wolfers, J., [2002], "Are Voters Rational? Evidence from Gubernatorial Elections", Stanford Research Paper No. 1730, Downloadable from [http://faculty-gsb.stanford.edu/wolfers/personal\\_page/research.html](http://faculty-gsb.stanford.edu/wolfers/personal_page/research.html)

*Voter response to taxes*

Besley, T. and A. Case [1995], "Incumbent Behavior: Vote-seeking, Tax Setting and Yardstick Competition", *American Economic Review* 85, 25-45. [JSTOR](#)

*Voter response to targeted spending*

\*Levitt S. and J. Snyder [1997], "The Impact of Federal Spending on House Election Outcomes", *Journal of Political Economy* 105, 30-53. [JSTOR](#)

*Targeted spending*

Dahlberg, M. and E. Johansson [2002], "On the Vote Purchasing Behavior of Incumbent Governments", *American Political Science Review* 96, 27-40.

Ansolabehere, S., A. Gerber, and J. Snyder [2002], "Equal Votes, Equal Money: Court-Ordered Redistricting and Public Expenditures in the American States", *American Political Science Review* 96, 767-. Downloadable from <http://econ-www.mit.edu/faculty/snyder/papers.htm>.

*Electoral size*

\*Husted, T. and L. Kenny [1997], "The Effects of the Expansion of the Voting Franchise on the Size of Government", *Journal of Political Economy* 105, 54-81. [JSTOR](#)

\*Lott, J and L. Kenny [1999], "How Dramatically Did Women's Suffrage Change the Size and Scope of Government", *Journal of Political Economy* 107, 1163-1198. [JSTOR](#)

### *Median voter*

- Rodriguez, R. [1999], "Does Distributional Skewness Lead to Redistribution? Evidence from the United States", *Economics and Politics*, 11, 171-199.
- Pomerehne, W. [1978], "Institutional Approaches to Public Expenditures: Empirical Evidence from Swiss Municipalities", *Journal of Public Economics* 7, 55-280.

## ***Part 2, Lectures 4-6, Partisan politics and political agency***

### *Basic partisan and legislative-bargaining models*

- \*Chapter 5 and 7 in P-T 2000.
- Alesina, A. [1988], "Macroeconomic Policy in a Two-Party System as a Repeated Game", *Quarterly Journal of Economics* 102, 651-678.
- Alesina, A. and R. Holden [2008], "Extremism and Ambiguities in Two-Candidate Elections", NBER Working Paper 14143.
- \*Baron, D. and J. Ferejohn [1989], "Bargaining in Legislatures", *American Political Science Review* 83, 1186-1206.
- \*Besley, T. and S. Coate [1997], "An Economic Model of Representative Democracy", *Quarterly Journal of Economics* 112, 85-114.
- \*Romer, T. and H. Rosenthal [1979], "Bureaucrats vs. Voters: on the Political Economy of Resource Allocation by Direct Democracy", *Quarterly Journal of Economics* 93, 563-587.

### *Partisan influence on policy*

- \*Pettersson-Lidbom, P. [2008], "Do Parties Matter for Economic Outcomes: A Regression Discontinuity Approach", *Journal of European Economic Association* 6, 1037-1056.
- Levitt, S., and J. Snyder [1995], "Political Parties and the Distribution of Federal Outlays", *American Journal of Political Science* 39, 958-80.
- Levitt, S. [1996], "How Do Senators Vote? Disentangling the Role of Voter Preferences, Party Affiliation, and Senator Ideology", *American Economic Review* 86, 425-441. [JSTOR](#)
- Rose, R. [1984], "Chapter 4: Testing the Manifesto" in *Do Parties Make a Difference?*, MacMillan Press, London.
- Budge, I. and R. Hofferbert [1990], "Mandates and Policy Outputs: US Party Platforms and Federal Expenditures", *American Political Science Review* 84 111-131. [JSTOR](#)

### *Citizen candidates*

- Pande, R. [2003], "Can Mandated Political Representation Increase Policy Influence for Disadvantaged Minorities? Theory and Evidence from India", *American Economic Review* 93, 1132-1151.
- Chattopadhyay, R. and E. Duflo [2004], "Women as Policy Makers: Evidence from a Randomized Experiment in India", *Econometrica* 72, 1409-1443

### *Agenda setters*

Romer, T., H. Rosenthal, and V.G. Munley [1992], "Economic Incentives and Political Institutions: Spending and Voting in School Budget Referenda", *Journal of Public Economics* 49, 1-33.

### *Legislative bargaining*

Arnold, D. [1979], *Congress and the Bureacracy*, Yale University Press.

\*Knight, B. [2008], "Legislative Representation, Bargaining Power, and the Distribution of Federal Funds: Evidence from the U.S. Senate," *Economic Journal* 118, 1785-1803.

\*Knight, B. [2004], "Bargaining in Legislatures: An Empirical Investigation," NBER Working Paper 10530 (shorter version "Estimating the Value of Proposal Power", *American Economic Review* 95, 1639-1652).

Roberts, B. [1990], "A Dead Senator Tells No Lies: Seniority and the Distribution of Federal Benefits", *American Journal of Political Science* 34, 31-58.

Stratmann, T. [1992], "The Effects of Logrolling on Congressional Voting", *American Economic Review* 82, 1162-1176.

### *Basic agency models*

\*Chapter 4 in P-T 2000.

Barro, R. [1973], "The Control of Politicians: An Economic Model", *Public Choice* 14, 19-42.

\*Besley, T. [2006], "Political Agency and Accountability", Chapter 3 in *Principled Agents? Lectures on the Political Economy of Good Government*, Oxford University Press available at [http://econ.lse.ac.uk/staff/tbesley/index\\_own.html#book](http://econ.lse.ac.uk/staff/tbesley/index_own.html#book).

\*Ferejohn, J. [1986], "Incumbent Performance and Electoral Control", *Public Choice* 50, 5-26.

### *Evidence on agency*

Peters, J. and S. Welch [1980], "The Effects of Charges of Corruption on Voting Behavior in Congressional Elections", *American Political Science Review* 74, 697-708. [JSTOR](#)

Welch, S. and J. Hibbing [1997], "The Effects of Charges of Corruption on Voting Behavior in Congressional Elections", *Journal of Politics*, 226-39. [JSTOR](#)

\*Finan, F. and C. Ferraz [2005], "Exposing Corrupt Politicians: The Effect of Brazil's Publicly Released Audits on Electoral Outcomes", *Quarterly Journal of Economics* 123, 703-745.

\*Besley T. and A. Case [1995], "Does Electoral Accountability Affect Economic Policy Choices? Evidence from Gubernatorial Term Limits", *Quarterly Journal of Economics* 110, 769-798.

Bender, J. and J. Lott [1996], "Legislator Voting and Shirking: A Critical Review of the Literature", *Public Choice* 87, 67-100.

Schmidt, K. and R. Morton [1996], "Evidence on Electoral Accountability in the US Senate: Are Unfaithful Agents Really Punished?", *Economic Inquiry* 34, 545-567.

### ***Part 3, Lectures 7-8, Political institutions and economic policy***

#### *Background*

Besley, T. and A. Case [2003], "Political Institutions and Policy Choices: Evidence from the United States", *Journal of Economic Literature* 41, 7-73.

\*Chapter 1 in Persson, T. and G. Tabellini [2003], *The Economic Effects of Constitutions*, MIT Press (P-T 2003 below)

Persson, T. and G. Tabellini [2004a], "Constitutions and Economic Policy", *Journal of Economic Perspectives* 18, 75-98.

#### *Theoretical predictions*

\*Chapters 8-10 in P-T 2000

Austen-Smith, D. [2000], "Redistributing Income under Proportional Representation", *Journal of Political Economy* 108, 1235-1269.

Coate, S. and B. Knight [2011], "Government Form and Public Spending: Theory and Evidence from US Municipalities", *American Economic Journal: Economic Policy* 3, 82-112.

Diermeier, D. and R. Vlaicu [2011], "Executive Control and Legislative Success", *Review of Economic Studies* 78, 846-871.

Lizzeri, A. and N. Persico [2001], "The Provision of Public Goods under Alternative Electoral Incentives", *American Economic Review* 91, 225-245.

Milesi-Feretti, G-M, R. Perotti, and M. Rostagno [2002], "Electoral Systems and the Composition of Government Spending", *Quarterly Journal of Economics* 117, 609-657.

Myerson, R. [1993], "Effectiveness of Electoral Systems for Reducing Government Corruption: A Game Theoretic Analysis", *Games and Economic Behavior* 5, 118-132.

Persson, T., G. Roland, and G. Tabellini [2000], "Comparative Politics and Public Finance", *Journal of Political Economy* 108, 1121-1161.

#### *Empirical strategy and results*

Acemoglu, D. [2005], "Constitutions, Politics and Economics: A Review Essay on Persson and Tabellini's *The Economic Effects of Constitutions*", *Journal of Economic Literature* 43, 1025-1048.

Chapters 3-4, in P-T 2003

\*Chapters 5 and 6 in P-T 2003.

Persson, T., G. Roland, and G. Tabellini [2007], "Electoral Rules and Government Spending in Parliamentary Democracies", *Quarterly Journal of Political Science* 2, 155-188.

Persson, T. and G. Tabellini [2004b], "Constitutional Rules and Fiscal Policy Outcomes", *American Economic Review* 94, 25-46.

Persson, T., G. Tabellini, and F. Trebbi [2003], "Electoral Rules and Corruption", *Journal of the European Economic Association* 1, 958-989.