

# Political Economics II – Spring 2010

## Objectives

This course aims at giving a selective overview of modern political economics, providing the students with basic research tools for theoretical and empirical work. Specifically, the course gives an introduction to theoretical models, empirical methodology, and substantive findings in political economics. It not only covers theoretical and empirical research, but also – importantly – the link between the two.

This basic course is followed by Political Economics III, a course which instead presents a range of selected topics at the current research frontier.

## Schedule and examination

The course has eight three-hour lectures. It also includes a number of exercises – theoretical as well as empirical – that will be discussed in separate exercise 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 and 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 [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., "Are Voters Rational? Evidence from Gubernatorial Elections", Stanford Research Paper No. 1730, 2002. 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", *AER*, 85, 1995, 25-45. [JSTOR](#)

*Voter response to targeted spending*

\*Levitt S. and J. Snyder [1997], "The impact of federal spending on house election outcomes", *JPE*, 105, 30-53. [JSTOR](#)

*Targeted spending*

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

Ansolabehere, S., Gerber, A., Snyder, J. [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", *JPE* 105, 54-81. [JSTOR](#)

\*Lott, J and L. Kenny [1999], "How Dramatically Did Women's Suffrage Change the Size and Scope of Government", *JPE* 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, 255-280.

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

### *Basic partisan models*

\*Chapter 5 and 7 in P-T 2000.

Alesina, A. [1988], "Macroeconomic Policy in a Two-Party System as a Repeated Game", QJE 102, 651-678.

Alesina, A. and R. Holden [2008], "Ambiguity and Extremism in Elections", mimeo Harvard University.

\*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", QJE 112, 85-114

\*Romer, T. and H. Rosenthal [1979], "Bureaucrats vs. voters: on the political economy of resource allocation by direct democracy", QJE 93, 563-587.

### *Partisan influence on policy*

\* Pettersson-Lidbom, P [2008], "Do Parties Matter for Economic Outcomes: A Regression Discontinuity Approach", forthcoming in JEEA.

Levitt, S., and J. Snyder [1995], "Political parties and the distribution of federal outlays", AJPS 39, 958-80.

Levitt, S. [1996], "How do senators vote? Disentangling the role of voter preferences, party affiliation, and senator ideology", AER 86, 425-441. [JSTOR](#)

Rose, [1984], Chapter 4: "Testing the Manifesto" in *Do parties make a difference?* MacMillan Press, London.

Budge, D. and Hofferbert [1990], "Mandates and policy outputs: US party platforms and federal expenditures", APSR 84 111-131. [JSTOR](#)

### *Citizen candidates*

Pande, R. [2003], "Can Mandated Political Representation Increase Policy Influence for Disadvantaged Minorities? Theory and Evidence from India", AER 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", AER 94, 2005).

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", AER 82, 1162-1176.

#### *Basic agency models*

\*Chapter 4 in P-T 2000.

\* 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).

#### *Evidence on agency*

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

Welch and 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", *QJE* 123, 703-745..

\* Besley T. and A. Case [1995], "Does electoral accountability affect economic policy choices? Evidence from gubernatorial term limits", *QJE* 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", *JPE* 108, 1235-1269.

Coate, S. and B. Knight [2009], "Government Form and Public Spending: Theory and Evidence from U:S: Municipalities", mimeo, Cornell University.

Lizzeri, A. and N. Persico [2001], "The provision of public goods under alternative electoral incentives", *AER* 91, 225-245.

- Milesi-Feretti, G-M, Perotti, R., and M. Rostagno [2002], "Electoral systems and the composition of government spending", QJE 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", JPE 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. and G. Tabellini [2004b], "Constitutional rules and fiscal policy outcomes", AER 94, 25-46.
- Persson, T., Tabellini, G. and F. Trebbi [2003], "Electoral rules and corruption", Journal of the European Economic Association 1, 958-989.