

# Economics 220: Political Economy I

Stanford University, Winter 2014

MW 5:15 – 7:05 PM, Landau 218

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## 1 Overview

This is a graduate-level survey course in political economics. We discuss game-theoretic models of political processes. Topics include: basic social choice theory, direct democracy, electoral competition, political accountability, legislative bargaining, lobbying, corruption, conflict and factionalism, and institutional change. We are particularly interested in how these political processes influence economic outcomes, such as taxation, redistribution, public goods, investment, and growth. Note that this is a theory-oriented class; although there is important empirical work on many of these topics, it is not our focus.

We have 2nd year PhD students in the economics department in mind as the primary target, but we welcome and encourage participation from elsewhere such as GSB and political science.

**Prerequisite** The class will assume familiarity with game theory at the level of ECON 203. No specific background in political economy is needed. Some topics build on knowledge in basic micro- and macroeconomics (at the 1st year economics PhD level), but such background will not be systematically required to understand the course.

**Textbook** We primarily use original papers, so there is no required textbook. The recommended reference is Persson and Tabellini, *Political economics: explaining economic policy*, The MIT press, 2000 (referred to as “PT” in the reading list section).

**Grading** There will be no problem sets. The assignments will be three literature reviews (25% each) and an in-class presentation (25%).

- Literature reviews (due dates: 1/29, 2/19, 3/5): Each of these will be a critical review of one or more related paper(s) not covered in detail in class. Summarize the papers' main contributions, and provide constructive criticisms. We suggest 5 pages as a length guideline, but this is not meant to be rigid.

To make sure that the paper topic is appropriate for this class, please email both Gabriel and Fuhito listing the papers you plan to cover at least one week prior to the due date. We aim to email you back within 2 days, either confirming or suggesting changes. You are free to write about papers that are on the reading list but are not covered in detail in lecture, or papers that are not on the reading list. You are also welcome to review empirical papers if they are connected to the theoretical topics discussed in the course. However, given the theoretical orientation of our class, at least one of the 3 reviews should be about theoretical papers, as should the presentation (below).

- In-class presentation: We ask each registered student to present in the class (the last 2 or 3 sessions will be allocated to student presentations, depending on enrollment). Each student is asked either to present one of his or her literature reviews, or to present one reviewed paper in detail.

## 2 Reading List

The reading list is a bit long; it is meant to give you inspiration for directions to explore. We will not cover every paper in class. Papers with \*\* are the main papers in each class — if you have time to read only one paper in detail per class, this is it. Papers with \* will be covered in class in some detail as well. For assignments (literature reviews and in-class presentation), choose paper(s) without \* or \*\*.

### 2.1 Voting and consequences (6 Lectures, Gabriel and Fuhito)

#### 2.1.1 Basic voting theory: Social choice (Fuhito)

- \*Arrow, Kenneth J. Social choice and individual values. Vol. 12. Yale university press, 2012.

- Sen, Amartya. “The possibility of social choice.” *The American Economic Review* 89.3 (1999): 349-378.
- Sen, Amartya. “The impossibility of a Paretian liberal.” *The journal of political economy* 78.1 (1970): 152-157.
- \*Gibbard, Allan. “Manipulation of voting schemes: a general result.” *Econometrica: journal of the Econometric Society* (1973): 587-601.
- \*\*Satterthwaite, Mark Allen. “Strategy-proofness and Arrow’s conditions: Existence and correspondence theorems for voting procedures and social welfare functions.” *Journal of economic theory* 10.2 (1975): 187-217.
- May, Kenneth O. “A set of independent necessary and sufficient conditions for simple majority decision.” *Econometrica: Journal of the Econometric Society* (1952): 680-684.
- Reny, Philip J. “Arrow’s theorem and the Gibbard-Satterthwaite theorem: a unified approach.” *Economics Letters* 70.1 (2001): 99-105.

### 2.1.2 Possibility of aggregation: Median voter theorems (Fuhito)

- \*\*Background Reading: PT Section 2.2
- \*Hotelling, Harold. “Stability in Competition.” *The Economic Journal* 39.153 (1929): 41-57.
- \*Black, Duncan. “On the rationale of group decision-making.” *The Journal of Political Economy* 56.1 (1948): 23-34.
- \*Grandmont, Jean-Michel. “Intermediate preferences and the majority rule.” *Econometrica: Journal of the Econometric Society* (1978): 317-330.
- \*Gans, Joshua S., and Michael Smart. “Majority voting with single-crossing preferences.” *Journal of Public Economics* 59.2 (1996): 219-237.
- Caplin, Andrew, and Barry Nalebuff. “On 64%-majority rule.” *Econometrica: Journal of the Econometric Society* (1988): 787-814.
- Moulin, Herve. “On strategy-proofness and single peakedness.” *Public Choice* 35.4 (1980): 437-455.

- McKelvey, Richard D. “Intransitivities in multidimensional voting models and some implications for agenda control.” *Journal of Economic theory* 12.3 (1976): 472-482.
- McKelvey, Richard D. “General conditions for global intransitivities in formal voting models.” *Econometrica: Journal of the Econometric Society* (1979): 1085-1112.
- Romer, Thomas, and Howard Rosenthal. “Political resource allocation, controlled agendas, and the status quo.” *Public choice* 33.4 (1978): 27-43.
- Myerson, Roger B., and Robert J. Weber. “A theory of voting equilibria.” *American Political Science Review* (1993): 102-114.

### 2.1.3 Positive theories of voting: Probabilistic voting and citizen-candidate models (Fuhito)

- **Probabilistic Voting**, Background Reading: PT 3.4
- \*\*Calvert, Randall L. “Robustness of the multidimensional voting model: Candidate motivations, uncertainty, and convergence.” *American Journal of Political Science* (1985): 69-95.
- \*Coughlin, Peter, and Shmuel Nitzan. “Electoral outcomes with probabilistic voting and Nash social welfare maxima.” *Journal of Public Economics* 15.1 (1981): 113-121.
- Ledyard, John O. “The pure theory of large two-candidate elections.” *Public Choice* 44.1 (1984): 7-41.
- Bernhardt, Dan, John Duggan, and Francesco Squintani. “The case for responsible parties.” *American Political Science Review* 103.4 (2009): 570-587.
- Banks, Jeffrey S., and John Duggan. “Probabilistic voting in the spatial model of elections: The theory of office-motivated candidates.” *Social choice and strategic decisions*. Springer Berlin Heidelberg, 2005. 15-56.
- **Citizen Candidate Models**, Background Reading: PT 5.1, 5.2
- \*Besley, Timothy, and Stephen Coate. “An economic model of representative democracy.” *The Quarterly Journal of Economics* 112.1 (1997): 85-114.
- \*\*Osborne, Martin J., and Al Slivinski. “A model of political competition with citizen-candidates.” *The Quarterly Journal of Economics* 111.1 (1996): 65-96.

- Dutta, Bhaskar, Matthew O. Jackson, and Michel Le Breton. “Strategic candidacy and voting procedures.” *Econometrica* 69.4 (2001): 1013-1037.
- Dutta, Bhaskar, Matthew O. Jackson, and Michel Le Breton. “Voting by successive elimination and strategic candidacy.” *Journal of Economic Theory* 103.1 (2002): 190-218.

#### 2.1.4 Voting for information aggregation (Fuhito)

- \*Austen-Smith, David, and Jeffrey S. Banks. “Information aggregation, rationality, and the Condorcet jury theorem.” *American Political Science Review* (1996): 34-45.
- Feddersen, Timothy J., and Wolfgang Pesendorfer. “The swing voter’s curse.” *The American economic review* (1996): 408-424.
- Feddersen, Timothy, and Wolfgang Pesendorfer. “Voting behavior and information aggregation in elections with private information.” *Econometrica: Journal of the Econometric Society* (1997): 1029-1058.
- \*\*Feddersen, Timothy, and Wolfgang Pesendorfer. “Convicting the innocent: The inferiority of unanimous jury verdicts under strategic voting.” *American Political Science Review* (1998): 23-35.
- Coughlan, Peter J. “In defense of unanimous jury verdicts: Mistrials, communication, and strategic voting.” *American Political Science Review* (2000): 375-393.
- Persico, Nicola. “Committee design with endogenous information.” *The Review of Economic Studies* 71.1 (2004): 165-191.
- Gerardi, Dino, and Leeat Yariv. “Deliberative voting.” *Journal of Economic Theory* 134.1 (2007): 317-338.
- Austen-Smith, David, and Timothy J. Feddersen. “Deliberation, Preference Uncertainty, and Voting Rules.” *American Political Science Review* 100.2 (2006): 209.
- McLennan, Andrew. “Consequences of the Condorcet jury theorem for beneficial information aggregation by rational agents.” *American Political Science Review* (1998): 413-418.

### 2.1.5 Economic applications (Gabriel)

- Background reading: PT section 6.1
- Romer, Thomas. “Individual welfare, majority voting, and the properties of a linear income tax.” *Journal of Public Economics* 4.2 (1975): 163–185.
- Roberts, Kevin W. S. “Voting over income tax schedules.” *Journal of Public Economics* 8.3 (1977): 329–340.
- \*Meltzer, Allan H. and Scott F. Richard. “A rational theory of the size of government.” *Journal of Political Economy* 89.5 (1981): 914–927.
- Krusell, Per, and José-Víctor Ríos-Rull. “On the size of U.S. government: Political economy in the neoclassical growth model.” *American Economic Review* 89.5 (1999): 1156–1181.
- Mayer, Wolfgang. “Endogenous tariff formation.” *American Economic Review* 74.5 (1984): 970–985.
- \*Alesina, Alberto, Reza Baqir, and William Easterly. “Public goods and ethnic divisions.” *Quarterly Journal of Economics* 114.4 (1999): 1243–1284.
- \*\*Lindbeck, Assar, and Jörgen W. Weibull. “Balanced-budget redistribution as the outcome of political competition.” *Public Choice* 52 (1987): 273–297.
- \*Dixit, Avinash, and John Londregan. “The determinants of success of special interests in redistributive politics.” *Journal of Politics* 58.4 (1996): 1132–1155.
- Dixit, Avinash, and John Londregan. “Redistributive politics and economic efficiency.” *American Political Science Review* 89.4 (1995): 856–866.

### 2.1.6 Electoral accountability (Gabriel)

- \*Background reading: PT chapter 4, particularly 4.4–4.5.
- \*\*Barro, Robert J. “The control of politicians: An economic model.” *Public Choice* 14.1 (1983): 19–42.
- \*Ferejohn, John. “Incumbent performance and electoral control.” *Public Choice* 50.1 (1986): 5–25.

- Fearon, James D. “Electoral accountability and the control of politicians: selecting good types versus sanctioning poor performance,” in Manin, Przeworski, and Stokes, eds., *Democracy, accountability and representation* (1999).
- Fearon, James D. “Self-enforcing democracy.” *Quarterly Journal of Economics* 126.4 (2011): 1661–1708.
- Rogoff, Kenneth S., and Anne Sibert. “Elections and macroeconomic policy cycles.” *Review of Economic Studies* 55.1 (1988): 1–16.
- \*Rogoff, Kenneth S. “Equilibrium political budget cycles.” *American Economic Review* 80.1 (1990), 21–36.
- Alesina, Alberto, and Guido Tabellini. “Bureaucrats or politicians? Part I: A single policy task.” *American Economic Review* 97.1 (2007): 169–179.
- Alesina, Alberto, and Guido Tabellini. “Bureaucrats or politicians? Part II: Multiple policy tasks.” *Journal of Public Economics* 92.3–4 (2008): 426–447.
- Acemoglu, Daron, Mikhail Golosov, and Aleh Tsyvinski. “Political economy of mechanisms.” *Econometrica* 76.3 (2008): 619–641.
- Yared, Pierre. “Politicians, taxes, and debt.” *Review of Economic Studies* 77.2 (2010): 806–840.

## 2.2 Voting and inequality (2 lectures, Gabriel)

### Effects of inequality on growth:

- \*\*Persson, Torsten, and Guido Tabellini. “Is inequality harmful for growth?” *American Economic Review* 84.3 (1994): 600–621.
- \*Alesina, Alberto, and Dani Rodrik. “Distributive politics and economic growth.” *Quarterly Journal of Economics* 109.2 (1994): 465–490.
- Perotti, Roberto. “Political equilibrium, income distribution, and growth.” *Review of Economic Studies* 60.4 (1993): 755–776.
- Bertola, Giuseppe. “Factor shares and savings in endogenous growth.” *American Economic Review* 83.5 (1993): 1184–1198.

- \*Saint-Paul, Gilles, and Thierry Verdier. “Education, democracy, and growth.” *Journal of Development Economics* 42.4 (1993): 399–407.
- Hassler, John, José V. Rodríguez Mora, Kjetil Storesletten, and Fabrizio Zilibotti. “The survival of the welfare state.” *American Economic Review* 93.1 (2003): 87–112.

### **Fairness, aspirations, and ideology:**

- \*Bénabou, Roland, and Efe A. Ok. “Social mobility and the demand for redistribution: The POUM hypothesis.” *Quarterly Journal of Economics* 116.2 (2001): 447–487.
- \*\*Alesina, Alberto, and George-Marios Angeletos. “Fairness and redistribution.” *American Economic Review* 95.4 (2005): 960–980.
- \*Piketty, Thomas. “Social mobility and redistributive politics.” *Quarterly Journal of Economics* 110.3 (1995): 551–584.
- Bénabou, Roland, and Jean Tirole. “Belief in a just world and redistributive politics.” *Quarterly Journal of Economics* 121.1 (2006): 699–746.

## **2.3 Legislative Decision-Making (3 Lectures, Fuhito)**

### **2.3.1 Bargaining models**

- Background reading: PT Section 5.4.
- \* Romer, Thomas, and Howard Rosenthal. “Political resource allocation, controlled agendas, and the status quo.” *Public choice* 33.4 (1978): 27-43.
- \*\* Baron, David P., and John A. Ferejohn. “Bargaining in legislatures.” *The American Political Science Review* (1989): 1181-1206.
- Banks, Jeffrey S., and John Duggan. “A bargaining model of collective choice.” *American Political Science Review* (2000): 73-88.
- Merlo, Antonio, and Charles Wilson. “A stochastic model of sequential bargaining with complete information.” *Econometrica: Journal of the Econometric Society* (1995): 371-399.



- Ansolabehere, Stephen, James M. Snyder, and Michael M. Ting. “Bargaining in Bicameral Legislatures: When and Why Does Malapportionment Matter?.” *American Political Science Review* 97.03 (2003): 471-481.
- \*McKelvey, Richard D., and Raymond Riezman. “Seniority in legislatures.” *American Political Science Review* (1992): 951-965.
- Baron, David P., and Daniel Diermeier. “Elections, governments, and parliaments in proportional representation systems.” *The Quarterly Journal of Economics* 116.3 (2001): 933-967.
- Diermeier, Daniel, and Timothy J. Feddersen. “Cohesion in legislatures and the vote of confidence procedure.” *American Political Science Review* (1998): 611-621.

### 2.3.2 Vote-buying models

- \*\*Snyder, James M. “On buying legislatures.” *Economics & Politics* 3.2 (1991): 93-109.
- \*Groseclose, Tim, and James M. Snyder Jr. “Buying supermajorities.” *American Political Science Review* (1996): 303-315.
- Philipson, Tomas J., and James M. Snyder Jr. “Equilibrium and efficiency in an organized vote market.” *Public Choice* 89.3-4 (1996): 245-265.
- Banks, Jeffrey S. “Buying supermajorities in finite legislatures.” *American Political Science Review* (2000): 677-681.
- Groseclose, Tim, and James M. Snyder Jr. “Vote Buying, Supermajorities, and Flooded Coalitions.” *The American Political Science Review* 94: 683-684.
- Dal Bo, Ernesto. “Bribing voters.” *American Journal of Political Science* 51.4 (2007): 789-803.

### 2.3.3 Committee structure

- \*\*Shepsle, Kenneth A., and Barry R. Weingast. “The institutional foundations of committee power.” *The American Political Science Review* (1987): 85-104.

- Krehbiel, Keith, Kenneth A. Shepsle, and Barry R. Weingast. “Why are congressional committees powerful?.” *The American Political Science Review* (1987): 929-945.
- \*\*Gilligan, Thomas W., and Keith Krehbiel. “Asymmetric information and legislative rules with a heterogeneous committee.” *American Journal of Political Science* (1989): 459-490.
- Krishna, Vijay, and John Morgan. “Asymmetric information and legislative rules: Some amendments.” *American Political Science Review* 95.2 (2001): 435-452.
- Battaglini, Marco. “Multiple referrals and multidimensional cheap talk.” *Econometrica* 70.4 (2002): 1379-1401.
- Krehbiel, Keith. “Legislative organization.” *The Journal of Economic Perspectives* 18.1 (2004): 113-128.

## 2.4 Lobbying and interest groups (1 Lecture: Fuhito)

- Background Reading: PT Section 7.5.1.
- Baron, David P. “Electoral competition with informed and uninformed voters.” *American Political Science Review* (1994): 33-47.
- \*\*Grossman, Gene M., and Elhanan Helpman. “Protection for sale.” *American Economic Review*, 1994.
- \*Bernheim, B. Douglas, and Michael D. Whinston. “Menu auctions, resource allocation, and economic influence.” *The quarterly journal of economics* 101.1 (1986): 1-31.
- Grossman, Gene M., and Elhanan Helpman. “Electoral competition and special interest politics.” *The Review of Economic Studies* 63.2 (1996): 265-286.
- Coate, Stephen, and Stephen Morris. “Policy persistence.” *The American economic review* 89.5 (1999): 1327-1336.
- Aidt, Toke S. “Political internalization of economic externalities and environmental policy.” *Journal of Public Economics* 69.1 (1998): 1-16.

- Fernandez, Raquel, and Dani Rodrik. “Resistance to reform: Status quo bias in the presence of individual-specific uncertainty.” *The American economic review* (1991): 1146-1155.

## 2.5 Conflict and factionalism (2 lectures, Gabriel)

- \*\*Garfinkel, Michelle R., and Stergios Skaperdas. “Chapter 22: Economics of conflict: An overview,” in *Handbook of Defense Economics*, Vol. 2, 649–709.
- Blattman, Christopher, and Edward Miguel. “Civil war.” *Journal of Economic Literature* 48.1 (2010): 3–57.
- Skaperdas, Stergios. “Contest success functions.” *Economic Theory* 7.2 (1996): 283–290.
- Skaperdas, Stergios. “Cooperation, conflict, and power in the absence of property rights.” *American Economic Review* 82.4 (1992): 720–739.
- Powell, Robert. “Guns, butter, and anarchy.” *American Political Science Review* 87.1 (1993): 115–132.
- \*Esteban, Joan, and Debraj Ray. “Conflict and distribution.” *Journal of Economic Theory* 87.2 (1999): 379–415.
- Esteban, Joan, and Debraj Ray. “Collective action and the group size paradox.” *American Political Science Review* 95.3 (2001): 663–672.
- \*Dal Bó, Ernesto, and Pedro Dal Bó. “Workers, warriors, and criminals: social conflict in general equilibrium.” *Journal of the European Economic Association* 9.4 (2011): 646–677.
- \*\*Fearon, James D. “Rationalist explanations for war.” *International Organization* 49.3 (1995): 379–414.
- Gonzalez, Francisco M. “Insecure property and technological backwardness.” *Economic Journal* 115.505 (2005): 703–721.
- Gonzalez, Francisco M. “Effective property rights, conflict and growth.” *Journal of Economic Theory* 137.1 (2007): 127–139.

## 2.6 Corruption (1 lecture, Gabriel)

- \*\*Shleifer, Andrei, and Robert W. Vishny. “Corruption.” *Quarterly Journal of Economics* 108.3 (1993): 599–617.
- Olken, Benjamin A., and Patrick Barron. “The simple economics of extortion: Evidence from trucking in Aceh.” *Journal of Political Economy* 117.3 (2009): 417–452.
- \*Mookherjee, Dilip, and I. P. L. Png. “Corruptible law enforcers: How should they be compensated?” *The Economic Journal* 105.428 (1995): 145–159.
- Banerjee, Abhijit V. “A theory of misgovernance.” *Quarterly Journal of Economics* 112.4 (1997): 1289–1332.
- \*Acemoglu, Daron, and Thierry Verdier. “The choice between market failures and corruption.” *American Economic Review* 90.1 (2000): 194–211.

## 2.7 Dictatorship, democracy, and institutional change (1 lecture, Gabriel)

- \*Acemoglu, Daron. “Why not a political Coase theorem? Social conflict, commitment, and politics.” *Journal of Comparative Economics* 31.4 (2003): 620–652.
- Powell, Robert. “The inefficient use of power: Costly conflict with complete information.” *American Political Science Review* 98.2 (2004): 231–241.
- \*\*Acemoglu, Daron, and James A. Robinson. “Why did the West extend the franchise? Democracy, inequality, and growth in historical perspective.” *Quarterly Journal of Economics* 115.4 (2000): 1167–1199.
- Acemoglu, Daron, and James A. Robinson. “A theory of political transitions.” *American Economic Review* 91.4 (2001): 938–963.
- \*Lizzeri, Alessandro, and Nicola Persico. “Why did the elites extend the suffrage? Democracy and the scope of government, with an application to Britain’s ‘age of reform.’ ” *Quarterly Journal of Economics* 119.2 (2004): 707–765.
- Acemoglu, Daron. “Oligarchic versus democratic societies.” *Journal of the European Economic Association* 6.1 (2008): 1–44.

- Bourguignon, François, and Thierry Verdier. “Oligarchy, democracy, inequality and growth.” *Journal of Development Economics* 62.2 (2000): 285–313.
- Acemoglu, Daron, and James A. Robinson. “Persistence of power, elites, and institutions.” *American Economic Review* 98.1 (2008): 267–293.