

Political Economics

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Introduction

In the last twenty years or so, a thriving research programme 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 in two steps. First, it illustrates the main approaches used in the literature to model the working of political and legal institutions. Second, it shows how these models can be used to shed light on traditionally more economic topics such as income redistribution, monetary policy, capital taxation, financial markets. A special focus will be devoted to studying the role of institutions in supporting economic development.

Course Administration

Lectures: Monday and Friday 11:00–13:00, Roger de Llúria 40.147

Instructor: Giacomo Ponzetto

Office Hours: Tuesday 11:00–13:00, Mercè Rodoreda 23.410

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Grading

There will be no problem sets nor a final exam. Instead, there are two requirements:

1. The material covered in the course is divided by weeks, each starting with the Friday lecture. Before 9 a.m. on the preceding Thursday, each student should send the instructor an e-mail with personal thoughts and criticism on the topic to be covered in the following week. Advance reading of at least some of the materials will help frame the questions and organize ideas, but the key is not so much to read as to think about the subject.
2. One week after the last class, each student must submit a final project. The project should be no more than 5–10 pages long and can be any of the following:

- (a) The proposal for an original paper. This will start with a motivation that explains the importance of the question and the reasons why it is not satisfactorily answered in the existing literature. It will then sketch a model or present some suggestive evidence that lies at the core of the proposed contribution. Finally, it will broadly outline the modelling approach or the empirical strategy to be pursued.
- (b) An extension of an existing model, which might become the basis of a paper. Ideally the extension will explain real-world phenomena that the original model could not account for, or it will yield additional empirical predictions that improve our ability to test the model with available data. However, the exercise can also be praiseworthy on purely technical grounds, if it is analytically sophisticated and shows, e.g., that existing results obtain under significantly weaker conditions than those assumed by the original authors.
- (c) Referee reports on two articles published in a top journal in the last few years. The articles must be agreed upon with the instructor. Each report will briefly summarize the paper, paying particular attention to the tightness of fit between the results in the body of the paper and their presentation in the introduction and conclusion. It will highlight the main contributions and shortly assess their importance. It will dwell more closely on the limitations of the paper and the directions in which the analysis ought to be extended.
- (d) A critical survey of the literature on a narrow topic. Such a survey will review the relevant literature in greater detail than the lectures and assigned readings, paying attention to working papers by the leading authors in the area. It should cover both theoretical and empirical contributions, although it may be unbalanced in favour of either. Special emphasis should be given to the questions that remain unanswered.

Class participation (1) will count for 30% of the final grade, and the final project (2) for the remaining 70%. Grading will take into account that projects belonging to types (a) and (b) are more challenging than those of types (c) and (d). Students are advised to consult with the instructor before starting to work on any project.

Syllabus

The course is divided into two halves of five weeks each: the first is devoted to the explanation of the policy choices of a representative government; the second to the analysis of institutions and their impact on long-run economic development.

The first part of the course is based on the following textbook:

Persson, Torsten, and Guido Tabellini. 2000. *Political Economics: Explaining Economic Policy*. Cambridge, MA: MIT Press.

More specifically, the readings on which each lecture is based are listed below. The seminal papers that underlie the textbook analysis are not explicitly included in the reading list, although you are naturally encouraged to refer to the primary sources for an in-depth analysis of any topic.

Representative Government

1. Voting and Elections

Persson and Tabellini (2000) Ch. 2, §§ 3.1–3.4, Ch. 6, §§ 7.1 and 7.4.

(a) Social Choice

Mas-Colell, Andreu, Michael D. Whinston, and Jerry R. Green. 1995. *Microeconomic Theory*. Oxford: Oxford University Press. Ch. 21.

(b) The Median Voter

Gerber, Elisabeth R., and Jeffrey B. Lewis. 2004. Beyond the Median: Voter Preferences, District Heterogeneity, and Political Representation, *Journal of Political Economy* 112 (6): 1364–1383.

(c) Probabilistic Voting

Strömberg, David. 2008. How the Electoral College Influences Campaigns and Policy: The Probability of Being Florida, *American Economic Review* 98 (3): 769–807.

Larcinese, Valentino, James M. Snyder, and Cecilia Testa. 2008. Testing Models of Distributive Politics Using Exit Polls to Measure Voter Preferences and Partisanship. Unpublished manuscript. London School of Economics and Political Science, London.

(d) Voter Turnout

Grossman, Gene M., and Elhanan Helpman. 2001. *Special Interest Politics*. Cambridge, MA: MIT Press. § 3.1.

Feddersen, Timothy, and Alvaro Sandroni. 2006. A Theory of Participation in Elections, *American Economic Review* 96 (4): 1271–1282.

Coate, Stephen, and Michael Conlin. 2004. A Group Rule-Utilitarian Approach to Voter Turnout: Theory and Evidence, *American Economic Review* 94 (5): 1476–1504.

Coate, Stephen, Michael Conlin, and Andrea Moro. 2008. The Performance of Pivotal-Voter Models in Small-Scale Elections: Evidence from Texas Liquor Referenda, *Journal of Public Economics* 92 (3–4): 582–596.

2. Special-Interest Politics

Persson and Tabellini (2000) §§ 3.5, 7.3 and 7.5.1.

Grossman, Gene M., and Elhanan Helpman. 2001. *Special Interest Politics*. Cambridge, MA: MIT Press.

(a) Voter Knowledge

Besley, Timothy, and Robin Burgess. 2002. The Political Economy of Government Responsiveness: Theory and Evidence from India, *Quarterly Journal of Economics* 117 (4): 1415–1451.

Strömberg, David. 2004. Radio's Impact on Public Spending, *Quarterly Journal of Economics* 119 (1): 189–221.

Glaeser, Edward L., Jesse M. Shapiro, and Giacomo A. M. Ponzetto. 2005. Strategic Extremism: Why Republicans and Democrats Divide on Religious Values, *Quarterly Journal of Economics* 120 (4): 1283–1330.

Ponzetto, Giacomo A. M. 2009. Asymmetric Information and Trade Policy. Unpublished manuscript. Centre de Recerca en Economia Internacional, Barcelona.

(b) The Role of the Media

Eisensee, Thomas, and David Strömberg. 2007. News Droughts, News Floods and U.S. Disaster Relief, *Quarterly Journal of Economics* 122 (2): 693–728.

Gentzkow, Matthew. 2006. Television and Voter Turnout, *Quarterly Journal of Economics* 121 (3): 931–972.

Oberholzer-Gee, Felix, and Joel Waldfogel. 2009. Media Markets and Localism: Does Local News *en Español* Boost Hispanic Voter Turnout? *American Economic Review* 99 (5): 2120–28.

Gerber, Alan S., Dean Karlan, and Daniel Bergan. 2009. Does the Media Matter? A Field Experiment Measuring the Effect of Newspapers on Voting Behavior and Political Opinions, *American Economic Journal: Applied Economics* 1 (2): 35–52.

Della Vigna, Stefano, and Ethan Kaplan. 2007. The Fox News Effect: Media Bias and Voting, *Quarterly Journal of Economics* 122 (3): 1187–1234.

Gentzkow, Matthew, and Jesse M. Shapiro. 2008. Competition and Truth in the Market for News, *Journal of Economic Perspectives* 22 (2): 133–154.

Gentzkow, Matthew, and Jesse M. Shapiro. 2010. What Drives Media Slant? Evidence from U.S. Daily Newspapers, *Econometrica*, forthcoming.

(c) Lobbying: Campaign Contributions

Levitt, Steven D. 1994. Using Repeat Challengers to Estimate the Effect of Campaign Spending on Election Outcomes in the U.S. House, *Journal of Political Economy* 102 (4): 777–798.

Ansolabehere, Stephen, John M. de Figueiredo, and James M. Snyder. 2003. Why Is There So Little Money in U.S. Politics? *Journal of Economic Perspectives* 17 (1): 105–130.

(d) Lobbying: Information

3. Politicians

Persson and Tabellini (2000) Ch. 4 and §§ 5.1–5.3.

Besley, Timothy. 2006. *Principled Agents? The Political Economy of Good Government*. Oxford: Oxford University Press.

(a) Partisan Politicians

(b) Citizen Candidates

(c) Rent-Seeking Politicians

(d) Agency

i. Retrospective Voting

ii. Career Concerns

4. Comparative Politics:

Persson and Tabellini (2000) §§ 5.4, 7.2, 7.5.2–7.5.3, Ch. 8 and 10.

Persson, Torsten, and Guido Tabellini. 2004. Constitutions and Economic Policy, *Journal of Economic Perspectives* 18 (1): 75–98.

(a) Legislatures

Knight, Brian. 2005. Estimating the Value of Proposal Power, *American Economic Review* 95 (5): 1639–1652.

(b) Electoral Rules

Lizzeri, Alessandro, and Nicola Persico. 2001. The Provision of Public Goods under Alternative Electoral Incentives, *American Economic Review* 91 (1): 225–239.

Baron, David P., and Daniel Diermeier. 2001. Elections, Governments, and Parliaments in Proportional Representation Systems, *Quarterly Journal of Economics* 116 (3): 933–967.

(c) Forms of Government

5. Macroeconomic Dynamics

Persson and Tabellini (2000) Ch. 11–13, 15–16 and §17.2.

(a) Commitment vs. Discretion

(b) Capital Taxation

(c) Public Debt

(d) Monetary Policy

(e) Electoral Cycles

Institutional Analysis

1. Institutions and Development

Helpman, Elhanan. 2004. *The Mystery of Economic Growth*. Cambridge, MA: Belknap Press of Harvard University Press.

De Long, J. Bradford, and Andrei Shleifer. 1993. Princes and Merchants: European City Growth before the Industrial Revolution, *Journal of Law and Economics* 36: 671–702.

Hall, Robert E., and Charles I. Jones. 1999. Why Do Some Countries Produce So Much More Output per Worker than Others? *Quarterly Journal of Economics* 114: 83–116.

La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer. 2008. The Economic Consequences of Legal Origins, *Journal of Economic Literature* 46 (2): 285–332.

Acemoglu, Daron, Simon Johnson and James A. Robinson. 2001. The Colonial Origins of Comparative Development: An Empirical Investigation, *American Economic Review* 91 (5): 1369–1401.

Acemoglu, Daron, Simon Johnson and James A. Robinson. 2002. Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution, *Quarterly Journal of Economics* 117 (4): 1231–1294.

Glaeser, Edward L., Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer. 2004. Do Institutions Cause Growth? *Journal of Economic Growth* 9: 271–303.

2. Oligarchies, Dictatorships and Political Transitions

Gerard Padró i Miquel. 2007. The Control of Politicians in Divided Societies: The Politics of Fear, *Review of Economic Studies* 74 (4): 1259–1274.

Acemoglu, Daron. 2008. Oligarchic versus Democratic Societies, *Journal of the European Economic Association* 6 (1): 1–44.

Acemoglu, Daron, and James A. Robinson. 1999. Why did the West Extend the Franchise? Democracy, Inequality and Growth in Historical Perspective, *Quarterly Journal of Economics* 115 (4): 1167–1199.

Glaeser, Edward L., Giacomo A. M. Ponzetto and Andrei Shleifer. 2007. Why Does Democracy Need Education? *Journal of Economic Growth* 12 (2): 77–99.

3. Law, Regulation and Rent Seeking

Coase, Ronald H. 1960. The Problem of Social Cost, *Journal of Law and Economics* 3: 1–44.

Glaeser, Edward L., Simon Johnson, and Andrei Shleifer. 2001. Coase versus the Coasians, *Quarterly Journal of Economics* 116: 853–899.

Glaeser, Edward L., and Andrei Shleifer. 2003. The Rise of the Regulatory State, *Journal of Economic Literature* 41 (2): 401–425.

Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer. 2002. The Regulation of Entry, *Quarterly Journal of Economics* 117 (1): 1–37.

Shleifer, Andrei, and Robert W. Vishny. 1993. Corruption, *Quarterly Journal of Economics* 108 (3): 599–617.

Murphy, Kevin M., Andrei Shleifer, and Robert W. Vishny. 1993. Why Is Rent-Seeking So Costly to Growth? *American Economic Review* 83 (2): 409–414.

4. Comparative Legal Systems, Legal Evolution, and Private Contracting

Gennaioli, Nicola, and Andrei Shleifer. 2007. The Evolution of Common Law, *Journal of Political Economy* 115 (1): 43–68.

Fernandez, Patricio A., and Giacomo A. M. Ponzetto. 2009. Stare Decisis: Rhetoric and Substance. Unpublished manuscript. Harvard University, Cambridge, MA.

Ponzetto, Giacomo A. M., and Patricio A. Fernandez. 2008. Case Law versus Statute Law: An Evolutionary Comparison, *Journal of Legal Studies* 37 (2): 379–430.

Glaeser, Edward L., and Andrei Shleifer. 2002. Legal Origins, *Quarterly Journal of Economics* 117 (4): 1193–1229.

Gennaioli, Nicola. 2009. Optimal Contracts with Enforcement Risk. Unpublished manuscript. Universitat Pompeu Fabra, Barcelona.

Gennaioli, Nicola, and Enrico Perotti. 2009. Standardized Enforcement: Access to Justice vs. Contractual Innovation. Unpublished manuscript. Universitat Pompeu Fabra, Barcelona.

5. Reform

Caselli, Francesco and Nicola Gennaioli. 2008. Economics and Politics of Alternative Institutional Reforms, *Quarterly Journal of Economics* 123 (3): 1197–1250.

Alesina, Alberto, and Allan Drazen. 1991. Why Are Stabilizations Delayed? *American Economic Review* 81 (5): 1170–1188.

Drazen, Allan, and William Easterly. 2001. Do Crises Induce Reforms? Simple Empirical Tests of Conventional Wisdom, *Economics and Politics* 13 (2): 129–157.

Alesina, Alberto, Silvia Ardagna, and Francesco Trebbi. 2006. Who Adjusts and When? The Political Economy of Reforms, *IMF Staff Papers* 53 (Special Issue): 1–29.