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:
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.

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.

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.

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:


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

(b) The Median Voter

(c) Probabilistic Voting

(d) Voter Turnout

2. Special-Interest Politics


(a) Voter Knowledge

(b) The Role of the Media

(c) Lobbying: Campaign Contributions

(d) Lobbying: Information

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

(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.

(a) Legislatures


(b) Electoral Rules


(c) Forms of Government

5. Macroeconomic Dynamics


(a) Commitment vs. Discretion

(b) Capital Taxation

(c) Public Debt

(d) Monetary Policy

(e) Electoral Cycles

**Institutional Analysis**

1. Institutions and Development


2. Oligarchies, Dictatorships and Political Transitions


3. Law, Regulation and Rent Seeking


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


5. Reform


