

## **Political Economy**

### **Module 1, 2018-2019**

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#### **Course information**

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**Course Website: TBA**

**Instructor's Office Hours: TBA**

**Class Time: TBA**

**Room Number: TBA**

**TAs: TBA**

#### **Course description**

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In the last two or three decades, a thriving research program 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, both theoretical and empirical ones. First, it illustrates the key approaches to study democratic politics, elections, and policy choice. Second, it analyzes different political institutions, political transitions, and institutional dynamics. Finally, it looks at the instances of government failure, including corruption, state fragility, and violent conflicts.

#### **Course requirements, grading, and attendance policies**

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The grade will be a combination of active class attendance, referee reports/problem sets, and the final short research paper.

The weight in the final grade:

- referee reports and problem sets– 45%
- class participation – 5%
- research paper (in teams of up to three people) – 50%

Getting an unsatisfactory grade for either referee reports and problem sets or research paper results in an unsatisfactory grade of the whole course.

## Course contents

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### Lecture 1. Introduction

- Acemoglu, Daron, and James Robinson (2006), Ch. 2.
- Persson, Torsten, and Guido Tabellini (2000), "Political Economics", Ch. 1
- Myerson, Roger (2000) "Economic Analysis of Constitutions," Chicago Law Review 67:925-940

### Lecture 2. Democratic politics. Theoretical Framework.

#### Voting and elections

- Acemoglu, Daron, and James Robinson (2006), Ch. 6, 8
- Persson, Torsten, and Guido Tabellini (2000), Ch. 2-3
- Austen-Smith, David and Banks, Jeffrey (1999) Positive Political Theory: Collective Preference, Ann Arbor; University of Michigan Press.
- Lindbeck, Assar, and Weibull, Jorgen W. (1987) "Balanced-Budget Redistribution as the Outcome of Political Competition." Public Choice 52: 273-297.

### Lecture 3. Do politicians represent the median voter? Empirical Evidence

- Lee, David, and Enrico Moretti, and Matthew J. Butler (2004). "Do Voters Affect or Elect Policies? Evidence from the U.S. House," Quarterly Journal of Economics, 119(3), 807-859.
- Husted, Thomas and Lawrence Kenny (1997). "The Effect of the Expansion of the Voting Franchise on the Size of Government", Journal of Political Economy, 105(1), 54-81.
- Miller, Grant (2008). "Women's Suffrage, Political Responsiveness, and Child Survival in American History", Quarterly Journal of Economics, 123(3), 1287-1327.
- Chattopadhyay, Raghavendra and Esther Duflo (2004). "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India," Econometrica, 72(5), 1409-1443.
- Pande, Rohini (2003). "Can Mandated Political Representation Increase Policy Influence for Disadvantaged Minorities? Theory and Evidence from India," American Economic Review, 93(4), 1132-1151.

### Lecture 4. Political participation: elections

#### Theoretical Framework

- Feddersen, Timothy J. (2004) Rational choice theory and the paradox of not voting. *Journal of Economic Perspectives* 18(1): 99-112.
- Feddersen, Timothy, and Alvaro Sandroni (2006) A theory of participation in elections. *American Economic Review* 96(4): 1271-1282.
- Feddersen, T. and W. Pesendorfer (1996) The Swing Voter's Curse. *American Economic Review*. 86(3): 408-424.
- McMurray (2013) "Aggregating Information by Voting: The Wisdom of the Experts versus the Wisdom of the Masses," *Review of Economic Studies*
- Ali and Lin (2013) "Why People Vote: Ethical Motives and Social Incentives," *American Economic Review*

#### Empirical Evidence

- Coate, S., M. Conlin, and A. Moro (2008) "The performance of pivotal-voter models in small-scale elections: Evidence from Texas liquor referenda," *Journal of Public Economics*

- Gerber, Alan S., and Donald P. Green (2000). "The Effects of Canvassing, Direct Mail, and Telephone Contact on Voter Turnout: A Field Experiment." *American Political Science Review* 94: 653-63.
- Gerber, Alan S., and Donald P. Green, and Christopher W. Larimer (2008). "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment." *American Political Science Review* 102(1): 33-48.
- Nickerson, David W. (2008). "Is Voting Contagious? Evidence from Two Field Experiments." *American Political Science Review* 102: 49-57.
- Krasno, Jonathan S., and Donald P. Green (2008). Do Televised Presidential Ads Increase Voter Turnout? Evidence from a Natural Experiment. *Journal of Politics* 70 (1): 245–261.
- Bond et al. (2012) "A 61-million-person experiment in social influence and political mobilization", *Nature*
- Shineman, V. "Incentivizing Participation Increases Political Information: Evidence from a Randomized Field Experiment," working paper

## **Lecture 5. Politicians. Political selection**

### **Theoretical Framework**

- Persson and Tabellini (2000) Ch. 4-5
- Besley, Timothy (2006), Ch. 3
- Besley, Timothy, 2005, "Political Selection" *Journal of Economic Perspectives*, 19(3), 43-60.
- Caselli, Francesco, and Massimo Morelli. 2004. "Bad Politicians." *Journal of Public Economics*, 88:759–782.

### **Empirical Evidence**

- Jones, B. and B. Olken (2005), "Do leaders matter? National Leadership and Growth Since World War II," *Quarterly Journal of Economics*, 120(3) 835-864.
- Besley, Timothy. 2004. "Paying Politicians: Theory and Evidence." *Journal of the European Economic Association*, 2:193–215.
- Besley, Timothy, Jose G.Montalvo, and Marta Reynal-Querol (forthcoming) "Do Educated Leaders Matter?" *Economic Journal*.
- Besley, Timothy, and Marta Reynal-Querol 2011 "Do Democracies Select More Educated Leaders?" *American Political Science Review*, 105 (3).

## **Lecture 6. Political Accountability**

- Alt, James, Ethan Bueno de Mesquita, and Shanna Rose (2011) "Disentangling accountability and competence in elections: evidence from US term limits." *The Journal of Politics* 73(1): 171-186.
- Alesina, Alberto, and Gerald Cohen 1999. "Political Cycles and the Macroeconomy." MIT press. Ch. 2,3,6.
- Alesina, Alberto, and Nouriel Roubini "Political Cycles in OECD Economies" *The Review of Economic Studies*, Vol. 59, No. 4 (Oct., 1992), pp. 663-688
- Akhmedov, Akhmed, & Ekaterina Zhuravskaya, 2004. "Opportunistic Political Cycles: Test in A Young Democracy Setting," *The Quarterly Journal of Economics*, MIT Press, vol. 119(4), pages 1301-1338, November.
- Drazen, Allan "The Political Business Cycle after 25 Years" *NBER Macroeconomics Annual*, Vol. 15, (2000), pp. 75-117
- Shi, Min & Svensson, Jakob, 2006. "Political budget cycles: Do they differ across countries and why?," *Journal of Public Economics*, Elsevier, vol. 90(89), 1367-1389.

- Johnson, Joseph M. & W. Mark Crain, 2004. "Effects of Term Limits on Fiscal Performance: Evidence from Democratic Nations," *Public Choice*, vol. 119(1\_2), 73-90, 04.
- Besley, T., Case, A., (1995) "Does Political Accountability Affect Economic Policy Choices? Evidence From Gubernatorial Limits," *Quarterly Journal of Economics* 110(3):769-98
- Besley, T., Case, A., (2003) "Political institutions and policy choices: Evidence from the United States", *Journal of Economic Literature* 41:7-73

### **Lecture 7. State capacity**

- Besley, Timothy, and Torsten Persson (2012)
- Acemoglu, Daron (2005) "Politics and Economics in Weak and Strong States" *Journal of Monetary Economics*, 52, 1199-1226.

### **Lecture 8. Special interest politics**

- Grossman, Gene M., and Elhanan Helpman (1994) "Protection for Sale." *American Economic Review* 84, 833-850
- Grossman, Gene M., and Elhanan Helpman (1996) "Electoral Competition and Special Interest Politics." *Review of Economic Studies* 63, 265-286.
- Alesina, Alberto and George-Marios Angeletos, 2005, "Fairness and Redistribution: US versus Europe," *American Economic Review*, 95(4), 960-980
- Alesina, Alberto & Rodrik, Dani, 1994. "Distributive Politics and Economic Growth," *The Quarterly Journal of Economics*, MIT Press, vol. 109(2), pages 465-90, May.
- Acemoglu, D. and J. Robinson, "Inefficient Redistribution," *American Political Science Review*, 2001.
- Coate, S. and S. Morris, "On the Form of Transfers to Special Interests," *Journal of Political Economy*, 1995.
- Acemoglu, D., "Why not a Political Coase Theorem? Social Conflict, Commitment, and Politics," *Journal of Comparative Economics*, 2003.
- Ansolabere, Figuerido and Snyder, 2003, "Why is there So little Money in US Politics", *Jouanal of Economic Perspectives*, vol. 17, n.1, pp. 105-130.
- Singhal Monica, Special Interest Groups and the Allocation of Public Funds, [Journal of Public Economics, Volume 92, Issues 3-4](#), April 2008, Pages 548-564

### **Lecture 9. Voters Behavior: Rationality of choices**

- Manacorda, Marco, Edward Miguel, and Andrea Vigorito. (2010). "Government Transfers and Political Support", forthcoming *American Economic Journal: Applied Economics*.
- Wolfers, Justin (2007). "Are Voters Rational? Evidence from Gubernatorial Elections", working paper.
- Mullainathan, Sendhil and Ebonya Washington (2009). "Sticking with Your Vote: Cognitive Dissonance and Political Attitudes", *American Economic Journal: Applied Economics*, 1(1), 86-111.
- Madestam A., and D. Yanagizawa-Drott "Shaping the Nation: The Effect of Fourth of July on Political Preferences and Behavior in the United States" mimeo
- 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, 582-596.

- Gerber, Alan, Donald Green, and Christopher Larimer (2008). "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment", *American Political Science Review*, 102(1), 33-48.
- Washington, Ebonya (2006). "How Black Candidates Affect Voter Turnout", *Quarterly Journal of Economics*, 121(3), 973-998.
- Gerber, A. and D. Green, "The Effect of Canvassing, Telephone Calls and Direct Mail on Voter Turnout: A Field Experiment," *American Journal of Political Science*, 2000.

#### **Lecture 10. Vote buying, electoral fraud and voter intimidation**

- Collier, Paul and Pedro Vicente (2011), "Votes and Violence: Evidence from a Field Experiment in Nigeria", Working Paper.
- Dekel, Eddie, Matthew O. Jackson, and Asher Wolinsky (2008), "Vote Buying: General Elections," *Journal of Political Economy* 116 (2), pp 351-380.
- Finan, Frederico and Laura Schecter (2012) "Vote-Buying and Reciprocity", *Econometrica*, 80(2): 863-881.
- Gonzalez-Ocantos, Ezequiel, Chad Kiewiet de Jonge, Carlos Meléndez, Javier Osorio, David W. Nickerson (2012) "Vote Buying and Social Desirability Bias: Experimental Evidence from Nicaragua." *American Journal of Political Science*, 56(1): 202-217.
- Hsieh, Chang-Tai, Edward Miguel, Daniel Ortega, and Francisco Rodriguez (2011), *American Economic Journal: Applied Economics* 3(2): 196-214
- "The Price of Political Opposition: Evidence from Venezuela's Maisanta", Centre for the Study of African Economies, WP No. 296
- Nichter, Simeon (2008), "Vote Buying or Turnout Buying? Machine Politics and the Secret Ballot," *APSR* 102 (1), 19-31.
- Vicente, Pedro (2013), "Is Vote Buying Effective? Evidence from a Field Experiment in West Africa?" *Forthcoming Economic Journal*.
- Enikolopov et al (2013) *PNAS*
- Callen, Michael and James Long (2011) "Institutional Corruption and Election Fraud: Evidence from a Field Experiment in Afghanistan," *Mimeo*.
- Card, David and Enrico Moretti (2007) "Does Voting Technology Affect Election Outcomes? Touch-Screen Voting and the 2004 Presidential Election," *Review of Economics and Statistics*, 89(4): pp. 660-673.
- Fujiwara, Thomas, "Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil." *Mimeo*.
- Larreguy, Horacio (2012) "Monitoring Political Brokers: Evidence from Clientelist Networks in Mexico" *Mimeo*.

#### **Lecture 11. Institutional Change and Democratization.**

- Acemoglu, Daron and Robinson, James (2006) Chapters 5 and 6.
- Jack, William and Lagunoff, Roger (2006) "Dynamic Enfranchisement," *Journal of Public Economics*, 90, 551-572.
- Lagunoff, Roger (2006) "Dynamic Stability and reform of Political Institutions," *Games and Economic Behavior*, 67: 569-583 (2009).
- Llavador, Humberto and Oxoby, Robert J. (2005) "Partisan Competition, Growth, and the Franchise," *Quarterly Journal of Economics*, 120, 1155-1192.
- Moore, Barrington (1966) *The Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*, Beacon Press, Boston MA.
- North, Douglass C. and Weingast, Barry R. (1989) "Constitutions and Commitment: Evolution of Institutions Governing Public Choice in Seventeenth Century England," *Journal of Economic History*, 49, 803-832.

**Lecture 12. Political Economics of Non-democracies.**

- Acemoglu, Daron And James A. Robinson, 2001, "A theory of political transitions", *American Economic Review*, 91:4, 938-963.
- Torsten Persson and Guido Tabellini, *Democracy and Development: The Devil in the Details*
- Acemoglu, Daron, Simon Johnson, James Robinson, and Pierre Yared. (2008). "Income and Democracy", *American Economic Review*, 98(3), 808-842
- Dal Bo, Pedro, Andrew Foster, Louis Putterman (2010) "Institutions and Behavior: Experimental Evidence on the Effects of Democracy", *American Economic Review*, 100(5), 2205-2229.
- Kudamatsu, Masayuki (2009). "Has Democratization Reduced Infant Mortality in sub-Saharan Africa? Evidence from Micro Data", unpublished working paper. [<http://people.su.se/~mkuda/RESEARCH.html>]
- Barro, Robert, 1999, "Determinants of Democracy," *Journal of Political Economy*, 107(6), S158-S183.
- Papaioannou, Elias and Gregorios Siourounis, 2007, "Initial Factors Behind the Third Wave of Democratization," Working Paper.
- Boix, Carles, and Susan C. Stokes "Endogenous Democratization" *World Politics*, Vol. 55, No. 4 (Jul., 2003), pp. 517-549
- Acemoglu and Robinson, Chapters 3, 6, and 9

**Lecture 13. Corruption**

- Banerjee, Abhijit, Rema Hanna, and Sendhil Mullainathan (2012), "Corruption." Forthcoming in the *Handbook of Organizational Economics*.
- Bandiera, Oriana, Andrea Prat, and Tommaso Valletti (2009), "Active and Passive Waste in Government Spending: Evidence from a Policy Experiment," *American Economic Review*, 99 (4), pp 1278-1308.
- Bertrand, Marianne, Djankov, Simeon, Hanna, Rema and Mullainathan, Sendhil, (2007) "Obtaining a Driver's License in India: An Experimental Approach to Studying Corruption," *Quarterly Journal of Economics*, 122(4) :1639-1676.
- Fisman, Ray (2001) "Estimating the Value of Political Connections," *American Economic Review*, 91: 1095-1102.
- Fisman, Ray and Wei, Shang-jin (2004) "Tax Rates and Tax Evasion: Evidence from "Missing Imports" in China", *Journal of Political Economy*, 112(2): 471-500.
- Hsieh, Chang-Tai and Enrico Moretti (2006), "Did Iraq Cheat the United Nations? Underpricing, Bribes, and the Oil for Food Program", *Quarterly Journal of Economics*, 121(4)
- Mauro, Paulo (1995), "Corruption and Growth," *Quarterly Journal of Economics*, 110(30): 681-712
- Reinikka, Ritva and Svensson, Jacob (2004) "Local Capture: Evidence from a Central Government Transfer Program in Uganda," *Quarterly Journal of Economics*, 119: 679-705.
- Riordan, William (1905), *Plunkitt of Tammany Hall: A Series of Very Plain Talks on Very Practical Politics*.
- Sequiera, Sandra and Simeon Djankov (2011), "Corruption and Firm Behaviour: Evidence from African Ports," Mimeo.
- Di Tella, Rafael and Ernesto Schargrotsky (2003) "The Role of Wages and Auditing During a Crackdown on Corruption in the City of Buenos Aires," *Journal of Law and Economics*, 46: 269-292
- Niehaus, Paul and Sandip Sukhtankar (2012), "Corruption Dynamics: The Golden Goose Effect," Forthcoming in *American Economic Journal: Economic Policy*.



- Olken, Benjamin (2007). "Monitoring Corruption: Evidence from a Field Experiment in Indonesia," *Journal of Political Economy*, 115 (2): 200-249.

#### **Lecture 14. Culture, Norms, Social Capital**

- Fisman, Raymond, and Miguel Edward (2007) "Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets." *Journal of Political Economy* 11(6): 1020-048.
- Putnam, Robert D., Robert Leonardi, and Raffaella Y. Nanetti (1994) *Making democracy work: Civic traditions in modern Italy*. Princeton university press.
- Guiso, Luigi, Paola Sapienza, and Luigi Zingales (2016) "Long-term Persistence" *Journal of European Economic Association*.
- Nannicini, Tommaso, Andrea Stella, Guido Tabellini, and Ugo Troiano (2013) "Social capital and political accountability." *American Economic Journal: Economic Policy* 5(2): 222-250.
- Algan, Yann, Pierre Cahuc, and Andrei Shleifer (2013) "Teaching practices and social capital." *American Economic Journal: Applied Economics* 5(3): 189-210.

#### **Description of course methodology**

Course is based on lectures that involve active participation of students in discussion.

#### **Sample tasks for course evaluation**

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Write a 2-3 page referee report on the paper "Motivating Politicians: The Impacts of Monetary Incentives on Quality and Performance" by Claudio Ferraz and Frederico Finna.

#### **Course materials**

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##### **Recommended Textbooks**

- Persson, Torsten, and Guido Tabellini (2000) *Political Economics*, MIT Press.
- Acemoglu, Daron, and James Robinson. (2006) *Economic Origins of Dictatorship and Democracy*, Cambridge U. Press.
- Besley, Timothy (2006) *Principled Agents?: The Political Economy of Good Government*, Oxford U. Press.
- Besley, Timothy and Torsten Persson (2012) *Pillars of Prosperity: The Political Economics of Development Clusters*, Princeton U. Press

##### **Required textbooks and materials**

Required reading is marked with \*\*

##### **Additional materials**

All the reading not marked with \*\*

##### **Academic integrity policy**

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Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.