

UNIVERSITY OF MARYLAND
Department of Economics

Economics 754
Fall 2011

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Introduction to Political Economy

This course is the first of a two-course sequence, the second course being Economics 757. The aim of 754 is to give students a solid grounding in methods and topics of modern political economy. Economics 757 will concentrate on specific topics.

The prerequisites for this course are the first-year micro and macro sequences. There will be a final exam at the end of the semester.

The course website is <https://sites.google.com/site/econ754/> which contains all course material. When readings are not easily available at JSTOR, we will try to put them on the course website. As this will be an ongoing process we will not mark what articles are available on the website.

Texts: (None is “required”)

Besley (2006), *Principled Agents: Motivation and Incentives in Politics*, Oxford (B)

Drazen (2000), *Political Economy in Macroeconomics*, Princeton (D)

Grossman and Helpman (2001), *Special Interest Politics*, MIT Press (GH)

Mueller (2003), *Public Choice III*, Cambridge University Press (M)

Persson and Tabellini (2000), *Political Economics*, MIT Press. (PT)

Riker (1982), *Liberalism Against Populism*, Waveland Press (R)

Roemer, J. (2001), *Political Competition: Theory and Applications*. Cambridge, MA: Harvard University Press (JR)

Formal treatment of many issues can be found in Austen-Smith and Banks, *Positive Political Theory I and II*, U. of Michigan Press.

1. Introduction to Political Economy

D, chapter 1

R, chapter 1

2. Basic Electoral Models

Dewan, T. and K.A. Shepsle (2011), “Political Economy Models of Elections,” *Annual Review of Political Science* 14, 311–30

PT, Ch. 2

JR, Ch. 1, 3

R, chapter 3

Shepsle, K. and B. Weingast (1981), “Structure-Induced Equilibrium and Legislative Choice,” *Public Choice* 37, 503-19

Gerber, E. and J. Lewis (2004), “Beyond the Median: Voter Preferences, District Heterogeneity, and Political Representation,” *Journal of Political Economy* 112, 1364-83

3. Accountability and Information Aggregation

B, chapter 3, especially, pp. 98-123

Ferejohn, J. (1986), "Incumbent Performance and Electoral Control," *Public Choice* 50, 5-26.

Austen-Smith D. and J. Banks (1989), "Electoral Accountability and Incumbency," in P.C.

Ordeshook (ed.) *Models of Strategic Choice in Politics*, Ann Arbor: Univ. Mich. Press

Fearon, J. (1999), "Electoral Accountability and Control Of Politicians: Selecting Good Types Versus Sanctioning Poor Performance," in Przeworski, Stokes, and Manin (eds.)

Democracy, Accountability, and Representation, Cambridge, UK: Cambridge Univ. Press

M, Section 6.1

Austen-Smith D, Banks J. 1996. "Information Aggregation, Rationality, and the Condorcet Jury Theorem," *American Political Science Review* 90, 34-45

Feddersen, T. and W. Pesendorfer (1997), "Voting Behavior and Information Aggregation in Elections with Private Information," *Econometrica* 65, 1029-1058

4. Further Issues in Elections as Preference Aggregation

M, sections 5.10-5.13

R, Ch 4

Banks, J.S. (1990), "A Model of Electoral Competition with Incomplete Information," *Journal of Economic Theort* 50, 309-325

Aragones, E. and T. Palfrey (2002), "Mixed Equilibrium in a Downsian Model with a Favored Candidate," *JET* 103,131-61

Besley, T. and S. Coate (1997), "An Economic Model of Representative Democracy," *QJE* 112, 85-114

Lee D., E. Moretti, and M.J. Butler (2004) "Do Voters Affect or Elect Policies? Evidence From the U.S. House," *QJE* 119, 807-59

Bardhan, P. and D. Mookherjee (2010), "Determinants of Redistributive Politics: An Empirical Analysis of Land Reforms in West Bengal, India," *AER* 100, 1572-60

5. Voting Rules (we probably won't cover this, except for an overview)

Levin, J. and B. Nalebuff (1995), "An Introduction to Vote-Counting Schemes," *Journal of Economic Perspectives* 9, 3-26

Cox, G. (1997), *Making Votes Count*, Cambridge, UK: Cambridge University Press

Cox, G. (1987), "Electoral Equilibria under Alternative Voting Institutions," *AJPS* 31, 82-108

Myerson, R. (1993), "Incentives to Cultivate Favored Minorities under Alternative Electoral Systems," *APSR* 87, 856-869

Lijphart, A. (1990), "The Political Consequences of Electoral Laws, 1945-1985," *APSR* 84, 481-496

Dekel, E. and M. Piccione (2000), "Sequential Voting," *JPE* 108, 34-55

Callander, S. (2007), "Bandwagons and Momentum in Sequential Voting," *Review of Economic Studies* 74, 653-684

6. Politicians – Further Models

Callander, S. (2008), "Political Motivations," *Review of Economic Studies* 75, 671-697

- Groseclose, T. (2001), "A Model of Candidate Location When One Candidate Has a Valence Advantage," *AJPS* 45, 862-886
- Kartik, N., and R. P. McAfee (2007), "Signaling Character in Electoral Competition," *AER* 97, 852-870
- Caselli, F. and M. Morelli (2004), "Bad Politicians," *J. Public Econ* 88, 759-82
- Maskin, E. and J. Tirole (2004), "The Politician and the Judge," *AER* 94, 1034-54
- Canes-Wrone, B., M. Herron, and K. Shotts (2001), "Leadership and Pandering: A Theory of Executive Policymaking," *AJPS* 45, 532-50
- Besley, T. and S. Coate (2003), "Elected versus Appointed Regulators: Theory and Evidence," *Journal of the European Economics Association* 1, 1176-1206

7. Participation and Turnout

GH, sect. 3.1,

M: Ch. 14

- Palfrey and Rosenthal (1985), "Voter Participation and Strategic Uncertainty," *APSR* 79, 62-78
- Feddersen, T. (2004), "Rational Choice Theory and the Paradox of Not Voting," *Journal of Economic Perspectives* 18, 99-112
- Feddersen, T. and W. Pesendorfer (1996), "The Swing Voter's Curse," *AER* 86, 408-24
- Feddersen, T. and W. Pesendorfer (1996), "Abstention in Elections with Asymmetric Information and Diverse Preferences," *APSR* 93, 381-98
- Gerber, A., D. Green and C. Larimer (2008), "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment," *APSR* 102, 33-48
- Coate, S. and M. Conlin (2004), "A Group Rule-Utilitarian Approach to Voter Turnout: Theory and Evidence," *AER* 94, 1476-1504
- Feddersen, T. and A. Sandroni (2006), "A Theory of Participation in Elections," *AER* 96, 1271-1282

8. Credibility and Reputation

D, pp. 175-201

- Backus, D. and J. Driffill (1985), "Inflation and Reputation," *American Economic Review* 75, 530-38
- Vickers, J. (1986), "Signaling in a Model of Monetary Policy with Incomplete Information," *Oxford Economic Papers* 38, 443-55
- Rogoff, K., (1987), "Reputational Constraints on Monetary Policy," *Carnegie-Rochester Conference Series on Public Policy* 26, 141-181

D, pp. 201-7

- Drazen, A. and P. Masson (1994), "Credibility of Policies versus Credibility of Policymakers," *QJE* 109, 735-54
- Sobel, J. (1985), "A Theory of Credibility," *Review of Economic Studies* 52, 557-573

- Hölmstrom, B. (1999) "Managerial Incentive Problems: A Dynamic Perspective," *Review of Economic Studies* 66, 169-82. (See also Dewatripont, Jewett, and Tirole, "The Economics of Career Concerns: Part I," and "The Economics of Career Concerns: Part II," in same issue)

Banks, J. and R. Sundaram (1993), "Adverse Selection and Moral Hazard in a Repeated Elections Model," in Barnett, ed. *Political Economy: Institutions, Information, Competition, and Representation*, Cambridge University Press

Austen-Smith, D. and J. Banks (1989), "Electoral Accountability and Incumbency," in Ordeshook, *Models of Strategic Choice in Politics*, University of Michigan Press

Rogoff, K. (1990), "Equilibrium Political Budget Cycles," *American Economic Review* 80, 21-36

Brender, A. and A. Drazen (2008), "How Do Budget Deficits and Economic Growth Affect Reelection Prospects? – Evidence from a Large Panel of Countries," *AER* 98, 2203-20

9. Experiments in Political Economy

Palfrey, T.R. (2007), "Laboratory Experiments," In *Oxford Handbook of Political Economy*, ed. Barry R. Weingast and Donald Wittman, 915–937. New York: Oxford University Press.

Morton, R. (2009), "Experimental Public Choice" [Slides from Plenary Lecture at 2009 ESA Meetings on Political Economy Experiments](#)

Drazen and Ozbay, notes

10. Basic Distributive Politics

Baron, D. and J. Ferejohn (1987), "Bargaining and Agenda Formation in Legislatures," *AER papers and Proceedings* 77, 303-9

Lindbeck, A. and J. Weibull (1987), "Balanced-Budget Redistribution as the Outcome of Political Competition," *Public Choice* 52, 273-297

Dixit, A. and J. Londregan (1996), "The Determinants of Success of Special Interests in Redistributive Politics," *Journal of Politics* 58, 1132-55

Coate, S. and S. Morris (1995), "On the Form of Transfers to Special Interests," *JPE* 103, 1210-35

11. Comparative Electoral Institutions: Votes and Seats

Roger Myerson (1999) "Theoretical Comparisons of Electoral Systems," 1998 Schumpeter Lecture, *European Economic Review* 43, p. 671-97.

Gian Maria Milesi-Ferretti, Roberto Perotti and Massimo V. Rostagno (2002) "Electoral Systems and Public Spending," *Quarterly Journal of Economics* 117(2), pages 609-657.

Coate, S. and B. Knight (2007) "Socially Optimal Districting: A Theoretical and Empirical Exploration," *Quarterly Journal of Economics* 122, 1409-1471.

12. Comparative Electoral Institutions: Term Limits

Michael Smart and Daniel Sturm (2008) "Term Limits and Electoral Accountability," forthcoming *Economic Journal*.

John List and Daniel Sturm (2006) "How Elections Matter: Theory and Evidence from Environmental Policy," *Quarterly Journal of Economics* 121(4), p. 1249 – 1281. Data available on Daniel Sturm's website.

13. Legislative Politics

Daniel Diermeier and Timothy Feddersen (1998) "Cohesion in Legislatures and the Vote of Confidence Procedure," *American Political Science Review* 92, p. 611-623.

Torsten Persson, Gerard Roland and Guido Tabellini (2000) "Comparative Politics and Public Finance," *Journal of Political Economy*, volume 108, p. 1121–1161.

Austen-Smith, D. and J. Banks (1988), "Elections, Coalitions, and Legislative Outcomes," *APSR* 82, 405-422.

14. Politics of Public Spending

Barry Weingast, Ken Shepsle and Johnsen (1981) "The Political Economy of Benefits and Costs" *Journal of Political Economy* 89(4).

Knight, Brian (2004) "Parochial Interests and the Centralized Provision of Local Public Goods: Evidence from Congressional Voting on Transportation Projects," *Journal of Public Economics* 88(3-4), pages 845-866.

15. Political Agency and Public Finance

B, Chapter 3 (1-3)

B, Chapter 4 (1-4).