

Econ 7395-01: Political Economy
Department of Economics, University of Houston
Fall 2008

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Lectures: M, W 11.30-1 in McElhinney 212. No class on Sep 1 (Labor Day), and Nov 26 (Thanksgiving).

This graduate course provides an introduction to the field of modern political economy. We will discuss formal theories and empirical work seeking to understand political behavior such as voting, running for office, or lobbying, and the implications of these behaviors for economic policies and institutions. Applications covered in detail include democratization, campaign finance policy, and corruption.

The course will be especially useful to students specializing in Public economics or Development economics, and will provide a valuable background to anyone interested in public policies.

Prerequisites

The course relies heavily on applied game theory. Anyone who did not take the UH first year graduate Micro sequence should talk to me before taking the course.

Assignments

There will be three types of assignments. (i) Occasional problem sets, (ii) Written assignment. For this assignment, you will choose a topic related to the course that would be suitable for a research paper, and write a critical literature review on approximately 5 related papers. You should then pick one of these papers and write a referee report on it. We will discuss exactly what this entails, but essentially you will summarize the paper in detail and then provide an assessment of its strengths and weaknesses, suggesting ways in which it could be improved or extended. The entire assignment should be around 10 pages (fontsize 12, 1.5 spacing). (iii) Presentation. You will present the paper you chose for your referee report to the class. We will discuss exactly what the presentation should look like, but essentially you will present it as if it was your paper and you were giving a seminar.

I will meet with each of you on the week of Oct 13 to discuss your topic and agree on the paper you will present.

I'm planning to schedule the presentations for the last four classes (11/19, 11/24, 12/1 and 12/3).

The complete written assignment is due via email by Midnight (CT) on Dec 12.

Textbooks and surveys

- Persson, T., and G. Tabellini (2002): *Political Economics: Explaining Economic Policy*, MIT Press. (PT)
- Grossman, G.M., and E. Helpman (2001): *Special Interest Politics*, MIT Press. (GH)
- Merlo, A. (2006): "Whither Political Economy? Theories, Facts and Issues," available on the author's website at UPenn. (M)
- Mueller, D.C. (2003): *Public Choice III*, Cambridge University Press.
- Drazen, A. (2000): *Political Economy in Macroeconomics*, Princeton University Press.

Tentative agenda and readings

0. Introduction

PT Chapter 2

1. Political participation: Voting

M Sections 1-2, GH Chapter 3.1

- Lijphart, A. (1997): "Unequal Participation: Democracy's Unresolved Dilemma," *The American Political Science Review* 91(1), 1-14.
- Feddersen, T. J. (2004): "Rational Choice Theory and the Paradox of Not Voting," *Journal of Economic Perspectives* 18, 99-112.
- Palfrey, T. R., and H. Rosenthal (1983). "A Strategic Calculus of Voting," *Public Choice* 41, 7-53.
- Palfrey, T.R., and H. Rosenthal (1985). "Voter Participation and Strategic Uncertainty," *American Political Science Review* 79, 62-78.
- Coate, S., M. Conlin and A. Moro (2008) "The Performance of the Pivotal-Voter Model in Small-Scale Elections: Evidence from Texas Liquor Referenda," *Journal of Public Economics* 92, 582-596
- Coate, S. and M. Conlin (2004): "A Group Rule-Utilitarian Approach to Voter Turnout: Theory and Evidence," *American Economic Review* 94, 1476-1504.
- Feddersen, T. and W. Pesendorfer (1996): "The Swing Voter's Curse," *American Economic Review* 86, 408-424.
- Degan, A., and A. Merlo (2007): "A Structural Model of Turnout and Voting in Multiple Elections," working paper.

2. Political participation: Group formation

- Olson, M. (1965): *The Logic of Collective Action*, Harvard University Press.
- Esteban, J., and D. Ray (2001): "Collective action and the group-size paradox," *American Political Science Review* 95(3), 663-672.
- Pecorino, P. (1998): "Is There a Free-Rider Problem in Lobbying? Endogenous Tariffs, Trigger Strategies, and the Number of Firms," *American Economic Review* 88(3), 652-660.

- Alesina, A., R. Baqir; and W. Easterly (1999): "Public Goods and Ethnic Divisions," *The Quarterly Journal of Economics* 114(4), 1243-1284.
- Alesina, A., and E. La Ferrara (2000): "Participation in Heterogeneous Communities," *The Quarterly Journal of Economics* 115(3), 847-904.
- Miguel, E., and M.K. Gugerty (2005): "Ethnic diversity, social sanctions, and public goods in Kenya," *Journal of Public Economics* 89, 2325–2368.
- Bornstein, G., U. Gneezy, and R. Nagel (2002): "The effect of intergroup competition on group coordination: an experimental study," *Games and Economic Behavior* 41, 1-25.

3. Politicians

PT Chapters 3.1-3.4 and 5.1-5.3, M Section 3

- Meltzer, A., and S. Richard (1981): "A rational theory of the size of government," *Journal of Political Economy* 89, 914-27.
- Strömberg, D. (2008): "How the Electoral College Influences Campaigns and Policy: The Probability of Being Florida," *American Economic Review* 98(3), 769–807.
- Besley, T. and S. Coate (1997): "An Economic Model of Representative Democracy," *Quarterly Journal of Economics* 112, 85-114.
- Osborne, M. and A. Slivinski (1996): "A Model of Political Competition with Citizen-Candidates," *Quarterly Journal of Economics* 111, 65-96.
- Lee, D., E. Moretti, and M. Butler (2004): "Do Voters Affect or Elect Policies? Evidence from the U.S. House," *Quarterly Journal of Economics*, 807-859.

4. Interest groups

GH Chapters 4-5 and 7-8, Mueller Chapter 15

- Grossman, G.M., and E. Helpman (1994): "Protection for Sale," *American Economic Review* 84(4), 833-850.
- Fredriksson, P.G., and J. Svensson (2003): "Political Instability, Corruption and Policy Formation: The Case of Environmental Policy," *Journal of Public Economics* 87(7-8), 1383-1405.
- Bombardini, M., and F. Trebbi (2008): "Votes or Money? Theory and Evidence from the US Congress," working paper, Chicago GSB.

5. Campaign finance

- Ansolabehere, S., J.M. de Figueiredo, and J.M. Snyder Jr. (2003): "Why is there so little money in US politics?" *The Journal of Economic Perspectives* 17(1), 105-130.
- Coate, S. (2004): "Pareto-Improving Campaign Finance Policy," *American Economic Review* 94(3), 628-655.
- Prat, A. (2002): "Campaign Advertising and Voter Welfare," *Review of Economic Studies* 69, 999-1017.
- Ujhelyi, G. (2008): "Campaign Finance Regulation with Competing Interest Groups," forthcoming, *Journal of Public Economics*.

6. Corruption

- Mauro, P. (1995): "Corruption and Growth," *Quarterly Journal of Economics* 110(3), 681-712.
- Ades, A., and R. Di Tella (1999): "Rents, Competition, and Corruption," *American Economic Review* 89(4), 982-993.
- Treisman, D. (2000): "The causes of corruption: a cross-national study," *Journal of Public Economics* 76, 399-457.
- Fisman, R., and E. Miguel (2007): "Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets", *Journal of Political Economy* 115(6), 1020-1048.
- Donchev, D., and G. Ujhelyi (2008): "What Do Corruption Indices Measure?" working paper.
- Ferraz, C., and F. Finan (2008): "Exposing corrupt politicians: The effects of Brazil's publicly released audits on electoral outcomes," *Quarterly Journal of Economics* 123(2), 747-793.
- Glaeser, E.L., and R.E. Saks (2006): "Corruption in America," *Journal of Public Economics* 90(6-7), 1053-1072.

7. Institutions, growth, and development

PT Chapter 14

- Perotti, R. (1993): "Political Equilibrium, Income Distribution, and Growth," *Review of Economic Studies* 60, 755-776.
- Bourguignon, F., and T. Verdier (2000): "Oligarchy, democracy, inequality and growth," *Journal of Development Economics* 62, 285-313
- Acemoglu, D., and J. A. Robinson (2006): *Economic Origins of Dictatorship and Democracy*, Cambridge University Press.