

**Politics 349**  
**Political Economy**

**Prerequisites:** ECO 100, ECO 101, and MAT 103

**Assessment:**

*Midterm exam* – 20% of the grade. The midterm exam is scheduled for Wednesday, October 26 from 7:30 PM to 9:30 PM.

*Final exam* – 40% of the grade

*Homework assignments* – 30% of the grade. These assignments will be a mix of problem sets and short (1-2 page) essays, and will serve as the basis for discussion in precepts.

*Precept participation* – 10% of the grade

**Course Materials**

***On reserve at Firestone Library***

- The book by T. Persson and G. Tabellini, *Political Economics: Explaining Economic Policy* (MIT Press 2000, paperback 2002) is at a more advanced mathematical level than is required for the course. It is, however, the best source for overviews of some of the main topics. A copy is on reserve [call no. HD87.P468 2000].
- M. Osborne, *An Introduction to Game Theory* (Oxford U. Press, 2004). [Call no. QA269 .O78 2004]

***Other materials***

- Many items are posted on Blackboard under Course Materials. The Blackboard web site of the course is available only to students registered for the course.
- Additional materials are on E-Reserves, which are accessible via Blackboard.

### Course outline

#### **I. Introduction: The interaction of politics and economics**

#### **II. Some building blocks: Tools for analysis**

##### A. Game theory

Osborne, Chapter 2: Sections 2.1-2.7

Osborne, Chapter 2: Section 2.8

##### B. Voting models

K. Shepsle and M. Bonchek, *Analyzing Politics*, ch. 5, pages 82-91 and 103-115 (on e-reserve)

Persson and Tabellini, Chapter 2: pp. 19-25.

Osborne, Chapter 3: Section 3.3

#### **III. Political Economy of Redistribution**

##### A. The Median-Voter Hypothesis

A. Meltzer and S. Richard, "A Rational Theory of the Size of Government," *J. Polit. Econ.*, Oct. 1981. [Focus on general set-up of the model and the implications of the results.]

Persson and Tabellini, Chapter 6: pp. 115-123. [A streamlined variant of the model presented in the Meltzer-Richard article.]

B. Milanovic, "The Median-Voter Hypothesis, Income Inequality, and Income Redistribution: An Empirical Test with the Required Data," *European J. of Political Econ.*, 2000.

R. Borck, "Voting, Inequality and Redistribution" *J. Econ. Surveys*, 2007.

##### B. Partisan politics

N. McCarty, K. Poole, and H. Rosenthal, "Political Polarization and Income Inequality," Princeton U., 2003.

L. Bartels, "Partisan Politics and the U.S. Income Distribution," Princeton U., Feb 2004.

A. Bonica, N. McCarty, K. Poole, and H. Rosenthal, "Why Hasn't Democracy Slowed Rising Inequality?" *J. Econ. Perspectives*, Summer 2013.

C. Alternative motivations for redistribution

C. Fong, "Social Preferences, Self-Interest, and the Demand for Redistribution", *Journal of Public Economics* 82(2), 225-246 (2001).

A. Alesina and E. La Ferrara, "Preferences for Redistribution in the Land of Opportunities," *Journal of Public Economics* (2005).

G. Corneo and H.P. Grüner, 2002. "Individual Preferences for Political Redistribution," *Journal of Public Economics* 83(1), 83-108 (2002).

D. Public goods – Education

S. Corcoran and W. Evans, "Equity, Adequacy, and the Evolving State Role in Education Finance" in Ladd and Fiske (eds.), *Handbook of Research in Education Finance and Policy*, Routledge, 2008. Read pp. 1-8 and 11-14.

S. Corcoran, T. Romer, and H. Rosenthal, "The Troubled Quest for Equality in School Finance", in H. Rosenthal and D. Rothman, eds., *What Do We Owe Each Other? Rights and Obligations in Contemporary American Society*, Transaction Publishers, 2008.

M. Rich, "Nation's Wealthy Places Pour Private Money into Public Schools, Study Finds," *NY Times*, Oct. 21, 2014.

**IV. Political effects on the economy**A. A little more game theory: Extensive games

Osborne, chapter 5: pp 153-173, especially sections 5.1, 5.2, 5.4, and 5.5 [On e-reserves]

B. Monetary Politics

News reports on controversies:

"In Republican Attacks on the Fed, Experts See a Shift," *NY Times* 7 April 2015.

"Challenged on Left and Right, the Fed Faces a Decision on Rates," *NY Times* 30 Aug 2015.

"With Trump in Power, the Fed Gets Ready for a Reckoning," *NY Times* 12 Nov. 2016.

"Yellen Seeks to Repair Damage as Congress Demands More Oversight," *Chicago Tribune*, 8 Sept. 2014

"Conservative Republicans Propose to Pare Back Federal Reserve's Dual Role", *NY Times* 17 November 2010.

"Fed Adopts Political Tactics on Critics," *NY Times*, 23 November 2010.

A. Drazen, *Political Economy in Macroeconomics*, Princeton U. Press, 2000.

Chapter 4: pp. 113-121. [On e-reserves]

Chapter 5: pp. 142-149. [On e-reserves]

(For a more advanced treatment, see Persson and Tabellini, pp. 393-405.)

C. E. Walsh, "Central Bank Independence," 2005.

C. Partisan effects

L. Bartels, *Unequal Democracy* (Princeton, 2008), chapter 4: pp. 98-110. [On e-reserves]

E. Snowberg, J. Wolfers, and E. Zitzewitz, "Partisan Impacts on the Economy: Evidence from Prediction Markets and Close Elections," *Quart. J. Econ.*, 2007.

B. Canes-Wrone and J-K. Park, "Electoral Business Cycles in OECD Countries," Princeton U., 2010. Focus on pp 1-4 and 9-27 (including Tables).

J. Weisman, "Uncertainty in Washington Poses Long Lists of Economic Perils," *NY Times*, 3 December 2014.

D. (In)Efficient Policy

D. Acemoglu and J. Robinson, "Political Losers as a Barrier to Economic Development," *Am. Econ. Rev.*, May 2000. Read the introduction and Section II.

D. Acemoglu and J. Robinson, "Inefficient Redistribution," *Am. Pol. Sci. Rev.*, Sept. 2001. Read pp. 649-651 and 658-660.

D. Acemoglu, "Why Not a Political Coase Theorem? Social Conflict, Commitment, and Politics," *J. Comparative Econ.*, Dec. 2003. Read pp. 620-624 and 627-633.

S. Jha, "Sharing the Future: Financial Innovation and Innovators in Solving the Political Economy Challenges of Development," 2011.

"A Secretive Banking Elite Rules Trading in Derivatives," *New York Times*, 12 December 2010

N. McCarty, K. T. Poole, T. Romer, and H. Rosenthal, "Political Fortunes: On Finance and Its Regulation," *Daedalus*, 2010.

"Wall Street Is Bracing for the Dodd-Frank Rules to Kick In," *New York Times*, 12 December 2012

"Deconstructing Dodd-Frank," *New York Times*, 12 December 2012

"GOP Prepares for Battle over Dodd-Frank," *The Hill*, 11 December 2016.