

# Political Economics: Explaining Economic Policies

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## *Instructor and contact details:*

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## *Course objectives*

The main objective of the course is to introduce the students to the modern models of political economics (i.e., economic models of the formation of policies), both from theoretical and empirical standpoint. This is the focus of Parts I and II of the course. The second objective is to present the applications of these models to explain existing variations in some key policies: overall government size, labour market institutions, and public health. This is the focus of the Part III of the course.

## *Textbook and materials*

The (relatively advanced) text on which a large part of the course is built is: T. Persson and G. Tabellini, *Political Economics: Explaining Economic Policy*, Cambridge, MA: MIT Press, 2000 (PT hereafter). We will also use several journal articles and working papers. Moreover, we will rely on a set of draft lecture notes, prepared by your colleagues during the previous years. All the supplementary material can be found on the website (WebCampus) of the course:

<http://webcampus.fundp.ac.be/claroline/course/index.php?cid=ECONM904>

An important part of the course consists in active learning by students, which takes the form of reading and presenting the empirical papers in small groups (2-3 people). At the first lecture, we will assign papers (marked below by a \*) to groups. Each presentation lasts 50 minutes (discussion included) and consists of presenting to the class the empirical results of the section of the paper that tests the models/theories presented at the previous lecture.

## *Grading*

The final exam is closed-book and will last two hours. It will consist of four questions: two theoretical and two empirical.

The grading structure is as follows:

- 1) The exam is graded on 14 point basis (out of 20).
- 2) For the presentations prepared by each group, I will add between up to 4 points to your final exam grade.
- 3) High-quality comments and active participation in discussions during the lectures and presentations will result in a bonus of up of 2 points towards your final grade.

## *Course outline and readings*

### Lecture 1. General introduction

- PT, chs. 1,2

## **Part I. Basic Building Blocks**

### Lectures 2-3. Electoral competition without political rents

#### (a) Electoral competition between opportunistic politicians

- PT, chs. 3.1-3.4
- (\*) PRESENTATION 1: Strömberg, D. (2008) "How the Electoral College influences campaigns and policy: The probability of being Florida," *American Economic Review*.

#### (b) Electoral competition between ideologically-motivated politicians

- PT, ch. 5.1-5.3
- (\*) PRESENTATION 2: Pande, R. (2003) "Can Mandated Political Representation Increase Policy Influence for Disadvantaged Minorities? Theory and Evidence from India," *American Economic Review*.

### Lecture 4. Electoral competition with political rents

- PT, chs. 4.1-4.4
- (\*) PRESENTATION 3: Ferraz, C. and Finan, F. (2011) "Electoral Accountability and Corruption: Evidence from Audits of Local Governments," *American Economic Review*

### Lecture 5. Lobbying

- PT, ch. 3.5
- (\*) PRESENTATION 4: Levitt, S. (1994) "Using Repeat Challengers to Estimate the Effect of Campaign Spending on Election Outcomes in the U.S. House," *Journal of Political Economy*.

### Lecture 6. Legislative Bargaining

- PT, ch. 5.4
- (\*) PRESENTATION 5: Knight, B. (2005) "Estimating the Value of Proposal Power," *American Economic Review*

## **Part II. Advanced Topics**

### Lecture 7. Political selection and quality of politicians

- Caselli, F. and Morelli, M. (2004) "Bad Politicians," *Journal of Public Economics*.

#### Lecture 8. Role of media in political economics

- Besley, T. and Burgess, R. (2002) "The Political Economy of Government Responsiveness: Theory and Evidence from India," *Quarterly Journal of Economics*.
- (\*) PRESENTATION 6: Eisesen, T. and Strömberg, D. (2007) "'News Droughts, News Floods, and U.S. Disaster Relief," *Quarterly Journal of Economics*.

#### Lecture 9. Bureaucracies

- Alesina, A. and Tabellini, G. (2007) "Bureaucrats or Politicians? Part I: A Single Policy Task," *American Economic Review*.

### **Part III. Applications to specific policies**

#### Lecture 10. Government size 1: Basic model

- PT, ch. 6.1
- (\*) PRESENTATION 7: Miller, G. (2008) "Women's Suffrage, Political Responsiveness, and Child Survival in American History," *Quarterly Journal of Economics*

#### Lecture 11. Government size 2: Multiple equilibria

- A. Alesina and G.-M. Angeletos. "Fairness and Redistribution", *American Economic Review*, September 2005

#### Lecture 12. Labor market institutions: Unemployment insurance and employment protection legislation.

- PT, ch. 6.4
- (\*) PRESENTATION 8: DiTella, R., and R. MacCulloch (2002). "The determination of unemployment benefits" *Journal of Labor Economics*

#### Lecture 13. Public health

- Aldashev, G. and Baland, J.-M. (2013) "Awareness and AIDS: A Political Economy Perspective," Working paper, University of Namur.

#### Lecture 14. Conclusion, discussion, and "research frontier" in political economics.