

12E019

Political Economy

6 ECTS

Overview and Objectives

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 Outline

The course will be based on the discussion of the relevant research papers. There will be two weekly lectures and no seminars, but students will be required to spend substantial amount of time reading the required papers outside the classroom.

Evaluation

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

The weight in the final grade:

- referee reports – 40%
- class participation – 10%
- research paper – 50%

Materials

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

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Course Outline

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

2. Democratic politics

2.1. Theoretical Framework

2.1.1. 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.

2.1.2. Politicians

- Persson and Tabellini (2000) Ch. 4-5
- Besley, Timothy (2006), Ch.
- 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.

2.1.3. 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.

2.2. Empirical Evidence on voting and elections

2.2.1. Do politicians represent the median voter?

- 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, Raghendra 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.

2.2.2. Mass media

- DellaVigna, S. and E. Kaplan (2007). The Fox News effect: Media bias and voting. Quarterly Journal of Economics 122(3), 807-860.
- Enikolopov, Petrova, and Zhuravskaya (2011) "Media and Political Persuasion: Evidence from Russia" AER
- James M. Snyder & David Strömberg, 2010. "Press Coverage and Political Accountability," Journal of Political Economy, University of Chicago Press, vol. 118(2), pages 355-408
- Egorov, G., S. Guriev, and K. Sonin (2009). Media freedom, bureaucratic incentives, and the resource curse, American Political Science Review 103(4), 645-668.
- Andrea Prat and David Strömberg 2010 "The Political Economy of Mass Media" CEPR Discussion Paper Series No. 8246.

2.2.3. 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.

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- 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.
- DellaVigna, List, Mallmendier,
- Kaplan, Ethan

2.2.4. 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.

2.3. Empirical Evidence on Accountability

2.4.1. Political motivation and political selection

- 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).

2.4.2. Political cycles. Term Limits

- 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.

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- 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

2.4. Empirical Evidence on Special Interests politics

2.4.1. Money in politics

- Trebbi
- Snyder

2.4.2. Redistribution, patronage, special interest politics

- 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", *Jouurnal 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

3. Political Institutions

3.1. Institutional Change

3.1.1. Institutional Change and Democratization.

- Acemoglu, Daron and Robinson, James (2006) Chapters 5 and 6.
- Jack, William and Laguno°E, 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.

3.1.2. Persistence of Inefficient Institutions.

- Acemoglu, Daron (2003) "Why Not A Political Coase Theorem? Social Conflict, Commitment and Politics", *Journal of Comparative Economics*, 31-4.
- Acemoglu, Daron, and James Robinson (2006), Ch 6
- Dixit, Avinash, Gene Grossman, and Faruk Gul (2000) "The Dynamics of Political Compromise," *Journal of Political Economy* 108:531-568

3.1.3. 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

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3.2. Constitutional Systems

3.2.1. Theory

- Persson, Torsten, Gerard Roland, and Guido Tabellini (1997) "Separation of Power and Political Accountability," *Quarterly Journal of Economics* 4:1163-1202
- Myerson, Roger (1999) "Theoretical Comparisons of Electoral Systems," *European Economic Review* 43:671-697.

3.2.2. Empirics

- Acemoglu, D. (2005) "Constitutions, politics and economic growth: A review essay on Persson and Tabellini's "The Economic Effects of Constitutions", *Journal of Economic Literature*
- Torsten P. "Forms of democracy, policy and economic development", mimeo Persson, T., Tabellini, G. (2003) "The Economic Effects of Constitutions: : What Do the Data Say?" MIT Press, Ch. 3-9
- Persson, T., Tabellini, G. (2004) "Constitutional rules and fiscal policy outcomes", *American Economic Review* 94:25-46
- Persson, T., Tabellini, G., Trebbi, F. (2003) "Electoral rules and corruption", *Journal of the European Economic Association* 1:958-989
- Persson, T. (2005) "Forms of democracy, policy, and economic development", NBER Working Paper, No. 11171
- Persson, T., Tabellini, G. (2004) "Constitutions and economic policy", *Journal of Economic Perspectives* 18:75-98
- Francesco Trebbi, Philippe Aghion, Alberto Alesina, 2008. "Electoral Rules and Minority Representation in U.S. Cities," *The Quarterly Journal of Economics*, MIT Press, vol. 123(1), pages 325-357, 02.

3.3. Decentralization

- Enikolopov, R., and Zhuravskaya, E., (2008) "Decentralization and Political Institutions," *Journal of Public Economics*, 91 (11), 2007, pp. 2261-2290.
- Pranab, B. (2002) "Decentralization of Governance and Development", *Journal of Economic Perspectives*, 16:185-205
- Blanchard, O., and Shleifer, A. (2001) "Federalism with and without Political Centralization: China Versus Russia", *IMF Staff Papers*, 48:171-179

- E.Zhuravskaya, S. Guriev and E.Yakovlev "Interest Group Politics in a Federation" *Journal of Public Economics*, 2010.

4. Government Failure

4.1. 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) :11639-1676.
- 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 Schargrodsky (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,"

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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.

4.2. State capacity

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

4.3. Conflicts

- Caselli, Francesco and John Coleman (2013), "On the Theory of Ethnic Conflict," *Journal of the European Economic Association*, 11: 161-192.
- Chassang, Sylvain and Gerard Padro-I-Miguel (2010), "Conflict and Deterrence Under Strategic Risk," *The Quarterly Journal of Economics*, 125 (4): 1821-1858.
- Dal Bo, Ernesto and Pedro Dal Bo (2011), "Workers, Warriors, and Criminals: Social Conflict in General Equilibrium," *Journal of the European Economic Association*, 9(4): 646-677.
- Esteban, Joan and Debraj Ray (2008), "On the Salience of Ethnic Conflict", *American Economic Review* 98 (5): 2185-2202.
- Fearon, James (1995), "Rationalist Explanations for War," *International Organization*, 49: 379-414.
- Jackson, Matthew O., and Massimo Morelli (2007), "Political Bias and War," *American Economic Review* 97 (4): 1353-1373.
- Powell, Robert (2004), "The Inefficient Use of Power: Costly Conflict with Complete Information," *American Political Science Review* 98(2)

- Skaperdas, Stergios (1992), "Cooperation, Conflict, and Power in the Absence of Property Rights," *American Economic Review* 82 (4): 720-739.
- Abadie, Alberto and Javier Garbeazabal (2003), "The Economic Costs of Conflict: A Case Study of the Basque Country," *American Economic Review* 93.
- Beath, Andrew, Fotini Christia, Ruben Enikolopov (2013) "Winning Hearts and Minds: Evidence from a Field Experiment in Afghanistan", Mimeo.
- Dell, Melissa (2012) "Tracking Networks and the Mexican Drug War." Mimeo.
- Dube, Oeindrila and Juan Vargas (2012), "Commodity Price Shocks and Civil Conflict: Evidence from Colombia," Forthcoming in *Review of Economics Studies*.
- Fearon, James D. and David D. Laitin (2003), "Ethnicity, Insurgency, and Civil War," *American Political Science Review*, 97(1):75-90.
- Jones, Benjamin F. and Benjamin A. Olken (2009), "Hit or Miss? The Effect of Assassinations on Institutions and War," *American Economic Journal: Macroeconomics*, 1(2): 55-87.
- Miguel, Edward, Shanker Satyanath and Ernest Sergenti (2004), "Economic Shocks and Civil Conflict: An Instrumental Variables Approach," *Journal of Political Economy* 112 (4):725-753.
- Nunn, Nathan and Nancy Qian, (2012) "Aiding Conflict: The Impact of U.S. Food Aid on Civil War," Mimeo.
- Reynal-Querol, M., & Montalvo, J. G. (2005). Ethnic polarization, potential conflict and civil war. *American Economic Review*, 95(3), 796-816.