

12P007

3 ECTS

Political Economy

Overview and Objectives

This course provides an overview of current topics in political economy. The main aim of the discussed topics is to understand (some of) the political reasons behind the massive income differences between countries by analyzing how politics and economics interact. The course offers an introduction to a diverse set of areas such as elections, the bureaucracy, the legal system, the role of the media in shaping policy and the capacity of the state to provide law and order.

Methodologically, we will pay close attention to the models and the empirical approaches used by the different authors to answer the questions of interest and to contrast the evidence. For that purpose, both econometric and game theoretic tools will be used in the lectures and the assignments. Students are also expected to critically engage the current literature on political economy during the class.

At the end of the course students will have an understanding of how institutions, power and economic outcomes interact with each other. They will also be familiar with a wealth of concepts used in political economy, conflict and development economics today. The close relation to development economics means that the course will offer some "policy conclusions" to take home.

Course Outline

Motivation and Empirical Tools (Session 1)

The first session will motivate the focus on political economy and the move away from standard growth models towards understanding institutions and conflict. Content of this session will be tested in the same week in an online test.

Voting (Session 2)

Voting models are the backbone of many political economy models. They also offer an excellent starting point to talk about the impact of institutions on political (and economic) outcomes.

- Median Voter Model, Multidimensional Voting, Citizen Candidate
- Chattopadhyay, Raghavendra and Esther Duflo (2004) Women as Policy Makers: Evidence from a Randomized Policy Experiment in India. *Econometrica*, 72(5), pp. 1409--1443.
- Sturm and List (2006) How Elections Matter: Theory and Evidence from Environmental Policy. *Quarterly Journal of Economics*, 121(4), 1249-1281.*

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- DellaVigna, Stefano and Ethan Kaplan (2007) The Fox News Effect: Media Bias and Voting. Quarterly Journal of Economics, 122, pp. 1187-1234.*

Political Accountability/Competition (Session 3)

In this session we look at an alternative to voting – appointment for life. We will compare the incentives of policy-makers in a normative framework and discuss why judicial independence is granted in practice.

- Maskin and Tirole (2004) The Politician and the Judge: Accountability in Government. American Economic Review 94(4), pp. 1034-1054.*

The Bureaucracy (Session 4)

In this session we turn towards the state bureaucracy as an institution. We will analyze how the tension between competence and political power in the bureaucracy affect efficiency and social peace.

- Mueller (2014) Insulation or Patronage: Political Institutions and Bureaucratic Efficiency. BE J. Econ. Anal. Policy 2015; 15(3): 961–996.
- Bai and Jia (2016) Elite Recruitment and Political Stability: The Impact of the Abolition of China’s Civil Service Exam. Econometrica, Vol. 84, No. 2 (March, 2016), 677–733.*

Property Rights, the Legal System and Law and Order (Sessions 5, 6 and 7)

Property rights are an important mechanism by which political institutions affect economic outcomes. In this series of sessions we discuss why property rights are important empirically and why they are often provided ineffectively.

Historic roots:

- Glaeser and Shleifer (2002) Legal Origins. Quarterly Journal of Economics, 117 (4): 1193-1229.*
- Banerjee and Iyer (2005) History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India. American Economic Review, 95(4): 1190-1213.

The mechanism at work:

- Goldstein and Udry (2008) The Profits of Power: Land Rights and Agricultural Investment in Ghana, Journal of Political Economy.*
- Besley, Tim; Thiemo Fetzner and Hannes Mueller (2015) The Welfare Cost of Lawlessness: Evidence from Somali Piracy. JEEA, 13(2): 203–239.*

De Jure and De Facto Political Power (Session 8 and 9)

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Political institutions affect political outcomes. However, outcomes and institutions also bend under economic power. In this series of sessions we discuss examples and mechanisms of this reverse causality.

- Acemoglu and Robinson (2006) De Facto Political Power and Institutional Persistence. *American Economic Review, Papers and Proceedings*.
- Kuziemko, Ilyana and Eric Werker (2006) How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations. *Journal of Political Economy*, 114(5), pp. 905-930.
- Dube; Kaplan and Naidu (2011) Coups, Corporations, and Classified Information. *Quarterly Journal of Economics*.*
- Blanes i Vidal, Draca, and Fons-Rosen (2012) Revolving Door Lobbyists. *American Economic Review*, 102(7): 3731-48.
- Luechinger and Moser (2014) The value of the revolving door: Political appointees and the stock market. *Journal of Public Economics*. Volume 119, November 2014, Pages 93–107.
- Siwan Anderson, Patrick Francois, and Ashok Kotwal (2015) Clientelism in Indian Villages. *American Economic Review* 2015, 105(6): 1780–1816.*

Political Institutions as a Mediator of Internal Conflict (Session 10)

In the final sessions we return to the idea that political institutions stabilize the economy. The mechanism we discuss will be based on the idea that there are pre-existing conflicts that are alleviated by political institutions.

- Esteban, Joan, Laura Mayoral, and Debraj Ray (2012) Ethnicity and Conflict: An Empirical Study, *American Economic Review*, 102(4): 1310-42.
- Eric Chaney (2013) Revolt on the Nile: Economic Shocks, Religion, and Political Power. *Econometrica*, 81(5), 2033--2053.
- Besley, Tim and Torsten Persson (2011) The Logic of Political Violence. *Quarterly Journal of Economics*, 126(3), 1411-1445.
- Burgess et al (2013) The Value of Democracy: Evidence from Road Building in Kenya. Mimeo. London School of Economics.*

Required Activities

There will be at least one online test and homework. Also, the lecture will include many “mini-exams” in which students need to solve tasks in class. Students will also need to write a final term paper.

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Evaluation

Your grade will be based on online tests and assignments (30%), and a term paper (70%).