

## University of Rochester Political Science

PSC 286  
Political Economy

Prof. Mark Fey  
Spring 2005

### Syllabus

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Office Hours: Friday, 1:30-3:00

This is an interdisciplinary course that focuses on the application of economic logic to political questions and the influence of political institutions and behavior on economic activity. I will begin by reviewing some basic theoretical models from the disciplines of economics, political science, and game theory. These building blocks will then be used to investigate a number of specific areas of interest. First, we will consider the role of special interests and lobbying on government regulation of economic activity. Then we will consider legislative behavior and bureaucracy and the connection between them. The final set of topics focus on the interaction between politics and the macroeconomy, such as political business cycles, monetary policy and central banks, and taxation and redistribution

The course will draw on a broad range of theoretical perspectives from positive political theory, public choice, and economics. Therefore, although there are no formal prerequisites for the course, some exposure to basic game theory or microeconomics would be helpful.

**Course Meetings:** Lectures for the course will be twice weekly, Tuesday and Thursday at 11:05 in Meliora 205.

**Course Work:** There will be two midterm exams during the semester. Dates will be announced in class.

In addition, there will be two papers. The first will be due the first week after spring break and the second will be due at the end of the term. For each paper, you must select an outside reading and using original, creative thought, discuss a related idea. This can consist of either a criticism, extension, or test of a theory, or a combination thereof. Each paper should be 6–10 pages.

The components of the final grade are: first midterm exam (20%), second midterm exam (20%), first paper (20%), second paper (20%), and class participation (10%).

**Course Readings:** The required text for the course is available at the campus bookstore:

- Joe Stevens, *The economics of collective choice* Boulder, Colo., Westview Press, 1993.

Additional readings will be available online or distributed during the semester.

Below are the scheduled readings for the course. Naturally, this schedule may change as the semester unfolds.

#### Topic 0 Introductory Lecture

- Stevens, *ECC*, Ch. 1
- Allan Drazen, “What is Political Economy?” Chapter 1, *Political Economy in Macroeconomics*, pp. 3–17.
- James Buchanan, “Individual Choice in Voting and the Market,” *The Journal of Political Economy*, Vol. 62, No. 4. (Aug., 1954), pp. 334–343. (JSTOR)

#### Topic 1 Basic Models: Economic Models

Supply & Demand, Pure Competition & Monopoly, Principal-Agent, Efficiency

- Stevens, *ECC*, Ch. 2, 3, 4

#### Topic 2 Basic Models: Political Models

Median Voter Theorem, Agenda Setting, Bargaining, Social Choice

- Stevens, *ECC*, Ch. 6 and sec. 7.0–7.3
- Allan Drazen, “Decision Making Mechanisms” Chapter 3, *Political Economy in Macroeconomics*, pp. 60–90.
- Romer and Rosenthal, “Voting Models and Empirical Evidence,” *American Scientist*, September-October, 1984, pp. 465–473

#### Topic 3 Basic Models: Game-theoretic Models

Prisoner’S Dilemma & Cooperation, Coordination Games

- Stevens, *ECC*, sec. 5.0 & 5.1
- Avinash Dixit and Barry Nalebuff, “Resolving the Prisoners Dilemma.” in *Thinking Strategically*, W.W. Norton & Co. 1991, pp. 89-118.

#### Topic 4 Public Goods

Freeriding, Collective Action, Externalities, Voluntary Provision, Government Supply

- Stevens, *ECC*, Ch. 5 and sec. 7.4–7.42
- John Oneal, “The Theory of Collective Action and Burden Sharing in NATO,” *International Organization*, Vol. 44, No. 3. (Summer, 1990), pp. 379–402. (JSTOR)

#### Topic 5 Special Interests, Regulation, and Rent-Seeking (I)

- Stevens, *ECC*, sec. 8.0–8.14 and 7.5–7.3 7.72
- Allan Drazen, *Political Economy in Macroeconomics*, pp. 90–96.
- William Mitchell and Michael Munger, “Economic Models of Interest Groups: An Introductory Survey,” *American Journal of Political Science*, Vol. 35, No. 2. (May, 1991), pp. 512–546. (JSTOR)
- George Stigler, “The Theory of Economic Regulation,” *The Bell Journal of Economics and Management Science*, Vol. 2, No. 1. (Spring, 1971), pp. 3–21. (JSTOR)
- Romer and Rosenthal, “Modern Political Economy and the Study of Regulation,” in *Public Regulation*, edited by Elizabeth E. Bailey, Cambridge, Mass., MIT Press, 1987.
- Barry Weingast and Mark Moran, “Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission,” *The Journal of Political Economy*, Vol. 91, No. 5. (Oct., 1983), pp. 765–800. (JSTOR)

#### Topic 6 Special Interests, Regulation, and Rent-Seeking (II)

- Roger D. Congleton, “Rent Seeking and Political Institutions” *The Encyclopedia of Public Choice*, C. K. Rowley and F. Schneider, Ed.s Kluwer Academic Press (2003).

- Anne Krueger, “The Political Economy of the Rent-Seeking Society,” *The American Economic Review*, Vol. 64, No. 3. (Jun., 1974), pp. 291–303. (JSTOR)
- Fred McChesney, “Rent Extraction and Rent Creation in the Economic Theory of Regulation,” *The Journal of Legal Studies*, Vol. 16, No. 1. (Jan., 1987), pp. 101–118. (JSTOR)

#### Topic 7 Legislative Behavior

Bargaining, Logrolling, Agenda Manipulation, Committees

- Stevens, *ECC*, sec. 8.15–8.3
- John Ferejohn, “Logrolling in an Institutional Context: A Case Study of Food Stamp Legislation,” in *Congress and Policy Change*, edited by Gerald Wright, Leroy Rieselbach, and Lawrence Dodd (New York: Agathon, 1986), pages 223–253

#### Topic 8 Bureaucracy

- Stevens, *ECC*, sec. 9.0–9.33
- Ronald Wintrobe, “Modern Bureaucratic Theory” in D. Mueller, ed., *Perspectives in Public Choice*, New York: Cambridge University Press, 1997.
- William Niskanen, “The Peculiar Economics of Bureaucracy,” *The American Economic Review*, Vol. 58, No. 2, (May, 1968), pp. 293–305. (JSTOR)
- Albert Breton and Ronald Wintrobe, “The Equilibrium Size of a Budget-maximizing Bureau: A Note on Niskanen’s Theory of Bureaucracy,” *The Journal of Political Economy*, Vol. 83, No. 1. (Feb., 1975), pp. 195–208. (JSTOR)

#### Topic 9 Delegation

Congressional Oversight, Monitoring

- Stevens, *ECC*, sec. 9.4–9.7
- Romer and Weingast, “Political Foundations of the Thrift Debacle,” in *Politics and Economics in the Eighties*, edited by Alberto Alesina and Geoffrey Carliner, Chicago, University of Chicago Press, 1991.

- Mathew McCubbins and Thomas Schwartz, “Congressional Oversight Overlooked: Police Patrols versus Fire Alarms,” *American Journal of Political Science*, Vol. 28, No. 1. (Feb., 1984), pp. 165–179. (JSTOR)

Topic 10 Redistribution and the Size of Government  
Government Debt as Commitment

- Roger Congleton “The Politics of Government Growth,” in *The Elgar Companion to Public Choice*, Edward Elgar Publishers, Ltd. (2001): 457–478.

Topic 11 Commitment & Credibility  
Time Inconsistency, Flexibility v. Commitment, Central Bank Independence, Reputation

- TBA

Topic 12 Elections & Business Cycles  
Moral Hazard and Adverse Selection in Elections, Political Business Cycles, Partisan Business Cycles, Balancing & Midterm Elections

- Gerald Kramer, “Short-Term Fluctuations in U.S. Voting Behavior, 1896-1964,” *The American Political Science Review*, Vol. 65, No. 1. (Mar., 1971), pp. 131-143. (JSTOR)
- Ray Fair, “Econometrics and Presidential Elections,” *The Journal of Economic Perspectives*, Vol. 10, No. 3. (Summer, 1996), pp. 89-102. (JSTOR)
- Alberto Alesina and Howard Rosenthal, “Partisan Business Cycles,” Chapter 7 in *Partisan Politics, Divided Government, and the Economy*, Cambridge University Press, 1995.

Topic 13 Taxation & Redistribution

- Stevens, *ECC*, sec. 7.73

Topic 14 Additional Topics  
property rights, comparative institutions courts and the law

- Stevens, *ECC*, Ch. 10–11

- Robert Cooter, “The Cost of Coase,” *The Journal of Legal Studies* , Vol. 11, No. 1. (Jan., 1982), pp. 1–33. (JSTOR)
- R. H. Coase, “The Problem of Social Cost,” *Journal of Law and Economics*, Vol. 3. (Oct., 1960), pp. 1–44. (JSTOR)
- George Stigler, “The Optimum Enforcement of Laws,” *The Journal of Political Economy*, Vol. 78, No. 3. (May - Jun., 1970), pp. 526–536. (JSTOR)