

ECO/PSC 582 Political Economy II

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Lectures: TBA.

Office Hours: By appointment, or drop by my office.

Course Outline: This course, a companion to ECO/PSC 575, will focus on surveying and discussing applications of dynamic models to political economy. Studying political dynamics helps to better align applied theory with important observed phenomena and to gather insight into the mechanics of the models we work with. Examples of topics covered are: dynamic electoral competition and extensions (or failures) of median voter theorems; dynamic legislative bargaining and the evolution (or unraveling) of compromise; sequential elections and the formation (or not) of bandwagons. Lectures will consist of working through important ‘classic’ papers as well as interesting new research and results. Emphasis on particular topics may vary with the configuration of class interests. Ideally, the class will serve as a vehicle for students to develop new research projects.

We will focus mostly on infinite-horizon models. This is not because finite extensive-form games cannot be useful to understand political dynamics. I see this course as being as much about learning how to apply a set of interrelated theoretical tools as about specific results. You are probably much more familiar with backward induction than with repeated and dynamic games. Going through a lot of examples of the latter should give you a good feel for their applications in any number of fields.

Evaluation: There will be no exam for this class. Instead, evaluation will be based on paper presentations and referee reports. At various point in the term, I will ask you to present some of the papers in the course and may request that you focus on specific results. I will also ask you to write referee reports (max 3 pages) on papers that need not be on the class reading list. What papers are acceptable is open to accommodation. Ideally these will be less polished working papers. The number of presentations and reports and their respective weights in the grading scheme will depend on the time allowed by the number of students in the class.

Topics: The following is how I categorise the existing literature in dynamic political economy. Some papers can plausibly be listed under various topics and the list of papers is certainly

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incomplete. I have included mostly those papers I think we may cover. Depending on class interests, we can be flexible with respect to the topics and papers covered as well as the order in which we do so.

1 Dynamic Extensions of the Standard Spatial Model

The spatial model has been a workhorse of theoretical political economy. There are a number of ways to extend it to deal with dynamic issues.

1.1 Repeated Games

Alesina (1988), Duggan and Fey (2006).

1.2 Unknown Candidate Preferences

Duggan (2000), Banks and Duggan (2008), Bernhardt et al. (2004), Bernhardt et al. (2009), Bernhardt et al. (2011), Kalandrakis (2009a). Van Weelden (2009) is a related model with perfect information.

1.3 Policy Persistence

Wittman (1977), Kramer (1977), Forand (2009), Anesi (2010).

2 Dynamic Bargaining

How do attitudes towards compromise, driven by endogenous changes in bargaining power, evolve?

2.1 Pie/Risk-sharing

Dixit et al. (2000). Yared (2010) is a recent paper using similar methods, although the application is different.

2.2 Legislative Bargaining with Persistent Status Quo

Kalandrakis (2004), Baron (1996), Baron et al. (2007), Baron et al. (2008), Kalandrakis (2009b), Duggan and Kalandrakis (2009), Fong (2008).

3 Dynamic Public Goods Provision

Policy-makers anticipating that their replacements may not share their preferences can distort current public goods provision to ‘tie the hands’ of future decision-makers.

Battaglini and Coate (2007), Battaglini and Coate (2008), Bai and Lagunoff (2010), Azzimonti (2011).

4 Dynamic Institutional Choice/Change

The choice of political institutions gets a lot richer in a dynamic setting. Beneficial institutional change in the current environment can be blocked by agents which fear these new rules facilitate further transitions towards undesirable institutions in the future.

Acemoglu and Robinson (2000), Acemoglu and Robinson (2001), Acemoglu and Robinson (2008), Acemoglu et al. (2008), Acemoglu et al. (2009), Fernandez and Rodrik (1991), Jack and Lagunoff (2006), Lagunoff (2009), Lizzeri and Persico (2004), Martinelli and Escorza (2007).

5 Dynamic Political Agency

Principal-agent models can be adapted to study the provision of incentives to politicians. This usually requires imposing suitable (*a*) restrictions on the space of contracts ‘offered’ by the voters or (*b*) assumptions on politician’s types and effort technology.

5.1 Retrospective Voting and Politician Screening

Ferejohn (1986), Banks and Sundaram (1993), Banks and Sundaram (1998), Schwabe (2009)

5.2 Preventing Disasters and Crises

Myerson (2007), Myerson (2008), Biais et al. (2010).

5.3 Lobbying and Common Agency

Bergemann and Valimaki (2003)

6 Political Experimentation/Learning

Political campaigns as well as policy decisions are naturally represented as processes in which voters learn about politicians and vice-versa. This seems like a very promising field for dynamic political economy. There is almost no work in this area.

6.1 Campaigns and Voter Learning

Gul and Pesendorfer (2010).

6.2 Policy Choice and Government Experimentation

Callander (2009), Strulovici (2009), Keppo and Smith (2008)

7 Sequential Elections

What differences should we expect in electoral outcomes when voters can observe the votes of their predecessors before heading to the polls? In light of models of ‘rational herding’, should ‘electoral bandwagons’ form?

Dekel and Piccione (2000), Callander (2007), Nageeb and Kartik (2010), Battaglini (2005).

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