

# TOPICS IN POLITICAL ECONOMY

PSCI 575      SPRING 2022      TR 11:05 – 12:20  
HARKNESS 329 (FENNO ROOM)

Instructor:

**PARTH PARIHAR**

**Office Hours:** Tuesdays, 2 – 3 PM, Harkness 109E (virtual in January); or by appointment

## Course Description

Dynamic considerations are often crucial in motivating the behavior of political and economic actors. In many political economy settings—for instance, electoral politics, bargaining, and information acquisition—agents interact with one another repeatedly. Decisions made in the past can influence present-day decision-making, and relevant information can arrive gradually. How do these important features of the environment affect agent behavior? How do they help explain the phenomena we observe in society and within political institutions?

In this course, we will discuss and apply dynamic game theoretic models to problems in political economy. We will also compare the behavior of agents within a given dynamic setting to its static analogue. This will help better align formal theory models with important observed phenomena and highlight the key insight behind the mechanics that generate them.

The topics we will cover include:

- Dynamic electoral competition (extensions of spatial models)
- Electoral accountability
- Legislative bargaining (with endogenous status quo) and gridlock
- Dynamic information acquisition and aggregation
- Collective action and dynamic public goods provision

Class meetings will consist of a review of “classic” and recent cutting-edge papers in the literature on dynamic games within political economy. We will motivate the models being analyzed with real-world observations and/or empirical studies. Class participation is expected; moreover, each student will be responsible for teaching one lecture (paper) each during the course of the semester.

## Course Aims and Learning Outcomes

- Recognize the ways in which the dynamic nature of a model affects equilibrium behavior
- Use the mathematical tools associated with dynamic games – i.e, value function iteration, backwards induction, etc.
- Develop ideas for future research based on important questions in political economy and the classic models presented in this course
- Hone presentation skills in order to better communicate one’s own research in the future

## Evaluation

Assessment - Students will be graded on and expected to complete the following–

1. **Class Participation:** this is a small graduate seminar whose main purpose is to introduce concepts and models that will help students' own development as researchers. Hence, the most important component for this course is engagement with the material in class. (50%)
2. **Class Presentation:** at the end of each unit, one student will present a paper that hasn't been discussed in class, that corresponds to that unit. The days for student presentations are indicated within the Class Outline below; each student will present once. Students can present from the papers listed here or one of their choice (with the instructor's permission). (40%)
3. **Problem Sets:** there will be two problem sets assigned during the course that cover the basic concepts covered in the papers we discuss in class. Problem sets are meant to extend the material and ensure that students understand the material in a variety of different contexts. Students are free to collaborate and the assignments will be graded with the "big picture" in mind. (10%)

Due dates: The first problem set will be due on March 15 (first day of class after Spring break) and the last problem set on April 26 (last day of class).

## COURSE OUTLINE

In this course outline, starred papers and literature reviews will be discussed in class and the others are suggested papers for presentations for that Unit. In many cases, simplified versions of the models developed in the papers will be presented. As mentioned above, students can also present a different paper as long as they clear it first.

### Unit 0: Repeated Prisoner's Dilemma (Week 1)

*This unit will rely on notes, rather than a specific set of papers. Meant as an introductory topic, it illustrates the foundations of cooperation through repeated interactions and will revise knowledge of basic game theory. This simple introduction highlights the differences that arise in agent behavior within finitely and infinitely repeated games. We will discuss some extensions of the finitely repeated prisoner's dilemma that attempt to capture the possibility of cooperation.*

### Unit 1: Spatial Models of Electoral Competition (Weeks 2 - 4)

*This unit introduces the basic Hotelling-Downs, Calvert-Wittman, and Osborne-Slivinski models of electoral competition and considers extensions of these "classic" papers to the setting of*

repeated electoral contests. We will focus on issues of commitment on the part of politicians and voter accountability in dynamic contexts.

### **Dynamic Models with Entry**

Palfrey, Thomas R. "Spatial Equilibrium with Entry." *The Review of Economic Studies* 51, no. 1 (1984): 139-56. <https://doi.org/10.2307/2297710>. (\*)

Besley, Timothy, and Stephen Coate. "Sources of Inefficiency in a Representative Democracy: A Dynamic Analysis." *American Economic Review*, Vol. 88, No. 1 (Mar 1998): 139-156. <https://www.jstor.org/stable/116822>. (\*)

Forand, Jean Guillaume, and Vikram Maheshri. "A Dynamic Duverger's Law." *Public Choice* 165, no. 3/4 (2015): 285-306. <http://www.jstor.org/stable/24768909>.

### **Dynamic Commitment**

Forand, Jean-Guillaume. "[Two-Party Competition with Persistent Policies](#)." *Journal of Economic Theory*, 153, 64-91, July 2014. (\*)

Duggan, John and Fey, Mark. "Repeated Downsian electoral competition." *International Journal of Game Theory*, No. 35 (2006): 39-69. <https://doi.org/10.1007/s00182-006-0046-1>.

### **Reputation and Accountability**

Duggan, John. "Repeated Elections with Asymmetric Information." *Economics & Politics*, 12 (2000): 109-135. <https://doi.org/10.1111/1468-0343.00071>. (\*)

Alesina, Alberto. "Macroeconomic Policy in a Two-Party System as a Repeated Game." *The Quarterly Journal of Economics*, Volume 102, Issue 3, August 1987: 651-678. <https://doi.org/10.2307/1884222>.

Kartik, Navin, and Van Weelden, Richard. "Reputation Effects and Incumbency (Dis)Advantage", *Quarterly Journal of Political Science*: Vol. 14: No. 2 (2019): 131-157. <http://dx.doi.org/10.1561/100.00016057>.

Nunnari, Salvatore, and Zapal, Jan. "Dynamic Elections and Ideological Polarization." *Political Analysis*, Vol. 25, No. 4 (October 2017): 505-534.

### **Helpful Literature Reviews (not for presentation)**

Duggan, John, and César Martinelli. "The Political Economy of Dynamic Elections: Accountability, Commitment, and Responsiveness." *Journal of Economic Literature* 55, no. 3 (2017): 916-84. <http://www.jstor.org/stable/26303308>.

Dewan, Torun, and Shepsle, Kenneth A. "Political Economy Models of Elections." *Annual Review of Political Science*, No. 14 (2011): 311-330. <https://www.annualreviews.org/doi/pdf/10.1146/annurev.polisci.12.042507.094704>

### **Student Presentation: Feb. 3**

#### **Unit 2: Political Agency (Weeks 5-6)**

*This unit introduces students to political agency problems in which moral hazard and adverse selection are both, in general, present. In many settings, voters observe a noisy signal of the effort and competence (type) of an incumbent. They must then choose whether or not to re-elect her, as opposed to a challenger for whom little is known. How should voters design incentives to motivate politicians to be responsive to their preferences? How does the dynamic environment (e.g., tenure of politicians) affect these incentives?*

Ferejohn, John. "Incumbent performance and electoral control." *Public Choice* 50 (1986): 5-25. (\*)

Ashworth, Scott and Bueno de Mesquita, Ethan. "[Delivering the Goods: Legislative Particularism in Different Electoral and Institutional Settings.](#)" *The Journal of Politics* 68:1 (2006): 168-179. <http://home.uchicago.edu/~bdm/PDF/constituency.pdf>

Banks, Jeffrey S. and Sundaram, Rangarajan K. "Optimal Retention in Agency Problems." *Journal of Economic Theory* 82 (1998): 293-332. (\*)

Ashworth, Scott, Ethan Bueno de Mesquita, and Amanda Friedenberg. "Accountability and Information in Elections." *American Economic Journal: Microeconomics* 9, no. 2 (2017): 95-138. (\*)

Ashworth, Scott, Ethan Bueno de Mesquita, and Amanda Friedenberg. "Learning about Voter Rationality." *American Journal of Political Science* 62, no. 1 (2018): 37-54. <http://www.jstor.org/stable/26598749>.

### **Student Presentation: Feb. 17**

#### **Unit 3: Dynamic Legislative Bargaining (Weeks 7 - 8)**

*The classical models of bargaining— e.g., Rubinstein (1982) and Baron and Ferejohn (1989)— consider problems in which multiple agents with competing interests must divide a surplus among themselves. Such models have often been used to model bargaining in the legislative setting. Yet, in the real world, policies dealing with a certain issue are revised from time to time. How does the persistence of policy over time affect outcomes? How does looking forward affect what politicians choose to do in the present?*

Callander, Steven and Martin, Greg. "Dynamic Policymaking with Decay." *American Journal of Political Science* Vol. 61, No. 1 (2017): 50-67. <https://onlinelibrary.wiley.com/doi/abs/10.1111/ajps.12258>. (\*)

Dziuda, Wioletta and Loeper, Antoine. "Dynamic Collective Choice with Endogenous Status Quo." *Journal of Political Economy* Vol. 124, No. 4 (2016).

<https://www.journals.uchicago.edu/doi/abs/10.1086/686747?af=R&mobileUi=0>. (\*)

Yared, Pierre. "A Dynamic Theory of War and Peace." *Journal of Economic Theory* Vol. 145, No. 5 (2010): 1921-1950. <https://doi.org/10.1016/j.jet.2010.04.005>.

Dixit, Avinash, Gene Grossman, and Faruk Gul. "The Dynamics of Political Compromise." *Journal of Political Economy*. Vol. 108, No. 3 (June 2000): 531-568. <https://doi.org/10.1086/262128>.

Battaglini, Marco and Coate, Stephen. "Inefficiency in Legislative Policymaking: A Dynamic Analysis." *American Economic Review*, Vol. 97, No. 1 (March 2007): 118-149.

<https://www.aeaweb.org/articles?id=10.1257/aer.97.1.118> (\*)

### Helpful Literature Review (not for presentation)

Eraslan, Hulya, Evdokimov, Kirill S., and Zapal, Jan. "Dynamic Legislative Bargaining." *ISER Discussion Paper*, No. 1090. January 2020.

<https://www.econstor.eu/bitstream/10419/230494/1/1713960583.pdf>.

### **Student Presentation: Mar. 3**

## **Unit 4: Learning and Dynamic Information Aggregation (Weeks 9-11)**

Many "wisdom of the crowd" arguments—that guarantee that large societies' beliefs will converge to the truth in the long run—rely on simultaneous release of information from many players. What happens when agents reveal information sequentially? What are factors that can lead to opinion polarization over time, as many observers note about American politics today?

Ottaviani, Marco and Sorensen, Peter. "Information Aggregation in Debate: Who Should Speak First?" *Journal of Public Economics*, Vol. 81, No. 3 (September 2001): 393-421. [https://doi.org/10.1016/S0047-2727\(00\)00119-5](https://doi.org/10.1016/S0047-2727(00)00119-5). (\*)

Benabou, Roland. "Groupthink: Collective Delusions in Organizations and Markets." *Review of Economic Studies*, Vol. 80, No. 2 (April 2013): 429-462.

Heidhues, Paul, Koszegi, Botond, and Strack, Philipp. "Unrealistic Expectations and Misguided Learning." *Econometrica* (2018). (\*)

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2703524](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2703524)

Basak, Deepal and Zhou, Zhen. "Diffusing Coordination Risk." *American Economic Review*, Vol. 110, No. 1 (2020): 271-297.

Daley, Brendan, and Green, Brett. "Bargaining and News." *American Economic Review*, Vol. 110, No. 2 (2020): 428-474.

Austen-Smith, David, and Wright, John R. "Counteractive Lobbying." *American Journal of Political Science*, Vol. 38, No. 1 (1994): 25-44.  
<https://doi.org/10.2307/2111334>. (\*) -- see treatment in McCarty and Meirowitz, Ch. 8.3.

Angeletos, George-Marios, Hellwig, Christian, and Pavan, Alessandro. "Dynamic Global Games of Regime Change: Learning, Multiplicity, and the Timing of Attacks." *Econometrica*, Vol. 75, No. 3 (May 2007): 711-756.  
<https://economics.mit.edu/files/343>

### **Student Presentation: March 31**

### **Unit 5: Dynamic Provision of Public Goods (Weeks 12-13)**

*In many settings, groups of agents are tasked with supplying a public good; for example, voluntary contributions to build a monument in the town square. This is a classic dynamic 'free-rider' problem—each agent wants the monument to be built, but does not want to pay out of pocket for it herself, preferring to rely on the contributions of others. For what reason is this problem natural to consider in "dynamic" environments? If the level of funds raised for a public good is common knowledge, how do the incentives of agents change as they approach completion of the project? What factors affect the amount of delay and whether projects are completed or not?*

Admati, Anat R., and Perry, Motty. "Joint Projects without Commitment." *Review of Economic Studies*, Vol. 58 (1991): 259-276. (\*)

Compte, Olivier, and Jehiel, Philippe. "Voluntary Contributions to a Joint Project with Asymmetric Agents." *Journal of Economic Theory*, Vol. 112, No. 2 (October 2003): 334-342. [https://doi.org/10.1016/S0022-0531\(03\)00103-0](https://doi.org/10.1016/S0022-0531(03)00103-0)

Compte, Olivier, and Jehiel, Philippe. "Gradualism in Bargaining and Contribution Games." *The Review of Economic Studies*, Vol. 71, No. 4 (October 2004): 975-1000.  
<https://doi.org/10.1111/0034-6527.00311>. (\*)

Kessing, Sebastian G. "Strategic Complementarity in the Dynamic Private Provision of a Discrete Public Good." *Journal of Public Economic Theory*, Vol. 9, No. 4 (2007): 699-710. <https://doi.org/10.1111/j.1467-9779.2007.00326.x>.

Bowen, Renee T., Georgiadis, George, and Lambert, Nicolas S. "Collective Choice in Dynamic Public Good Provision." *American Economic Journal: Microeconomics* (2019): 243-298. <https://www.aeaweb.org/articles?id=10.1257/mic.20170217>

### **Helpful Literature Review (not for presentation)**

Georgiadis, George, and Powell, Michael. "Lecture Notes on the Dynamic Provision of Discrete Public Goods." 2018.

[https://www.kellogg.northwestern.edu/faculty/georgiadis/PublicGoods\\_LectureNotes.pdf](https://www.kellogg.northwestern.edu/faculty/georgiadis/PublicGoods_LectureNotes.pdf)

### **Student Presentation: April 14**

### **Unit 6: Miscellaneous (Weeks 14-15)**

Feddersen, Timothy, and Gul, Faruk. "Polarization and Income Inequality: A Dynamic Model of Unequal Democracy." *Working Paper*, 2015.

[https://projects.iq.harvard.edu/files/pegroup/files/feddersengul\\_5.5.pdf](https://projects.iq.harvard.edu/files/pegroup/files/feddersengul_5.5.pdf) (\*)

Morris, Stephen and Shin, Hyun song. "Global Games: Theory and Applications." *Eighth World Congress of the Econometric Society* (2001).

<https://faculty.fuqua.duke.edu/~qc2/BA532/2003%20Global%20games%20Morris%20and%20Shin.pdf>.

Millner, Antony. "Nondogmatic Social Discounting." *American Economic Review*, Vol. 110, No. 3: 760-775. <https://doi.org/10.1257/aer.20161007>.

Harstad, Bard. "Climate Contracts: A Game of Emissions, Investments, Negotiations, and Renegotiations." *The Review of Economic Studies*, Vol. 79 (2012): 1527-1557.

<https://www.jstor.org/stable/23355080>.