

# POL2012: Theories and Models in Political Economy

Introduction and Economic Systems

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# Practical Info

- ▶ Build up of the course

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- ▶ Hand-ins and seminars

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  - ▶ **Deadline: Late October**



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  - ▶ 29th November
  - ▶ 4 hour written exam

# What is “Political Economy”?

- ▶ “Most commonly refers to interdisciplinary studies drawing upon economics, sociology, and political science in explaining how political institutions, the political environment, and the economic system - capitalist, socialist, or mixed - influence each other.”  
- Weingast & Wittman (2008)

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- ▶ The role of markets
- ▶ The role of government
- ▶ Economy as self-equilibrating
- ▶ Growth, the default state

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- ▶ Financial crises

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- ▶ Stagnating growth

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  - ▶ Paradigms
  - ▶ Models

## Example – is this theory?

“Countries with better “institutions,” more secure property rights, and less distortionary policies will invest more in physical and human capital, and will use these factors more efficiently to achieve a greater level of income (e.g., Douglass C. North and Robert P. Thomas, 1973; Eric L. Jones, 1981; North, 1981). This view receives some support from cross-country correlations between measures of property rights and economic development (e.g., Stephen Knack and Philip Keefer, 1995; Paulo Mauro, 1995; Robert E. Hall and Charles I. Jones, 1999; Dani Rodrik, 1999), and from a few micro studies that investigate the relationship between property rights and investment or output (e.g., Timothy Besley, 1995; Christopher Mazingo, 1999; Johnson et al., 1999).”

## Example – is this theory?

“Colonies where Europeans faced higher mortality rates are today substantially poorer than colonies that were healthy for Europeans. Our theory is that this relationship reflects the effect of settler mortality working through the institutions brought by Europeans.”

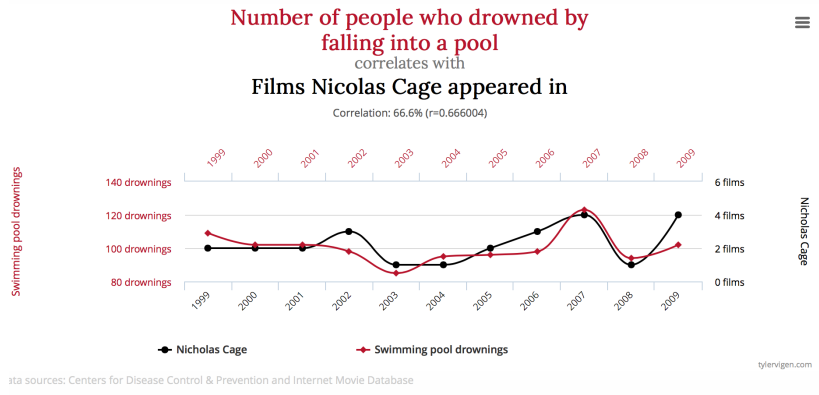
# Theory

- ▶ Arriving at hypotheses

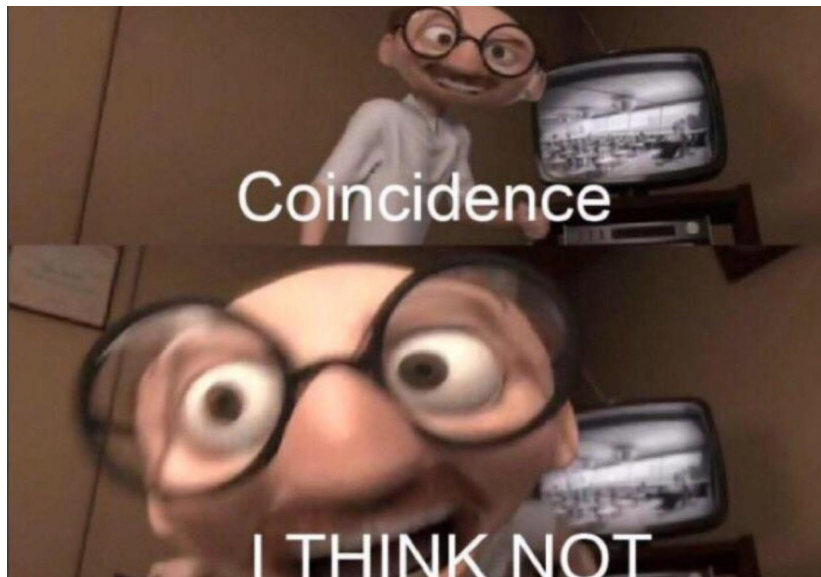
# Theory

- ▶ Arriving at hypotheses
- ▶ Answering the “why” of a causal claim (hypothesis)





# Theory



# Theory

- ▶ Theory 1: Nicholas Cage is a great actor (empirical statement) and his movies often involve swimming/drowning in pools (empirical statement). (because) Any great actor wants his/hers movies to be realistic and so... (“A set of logical arguments about causality”)

# Theory

- ▶ Theory 1: Nicholas Cage is a great actor (empirical statement) and his movies often involve swimming/drowning in pools (empirical statement). (because) Any great actor wants his/hers movies to be realistic and so... (“A set of logical arguments about causality”)
- ▶ Theory 2: Nicholas Cage is a terrible actor (empirical statement). So terrible in fact, that people become acutely suicidal (logical argument), the statistics on pool drownings is picking up part of this effect.

# Models

What is a model?

# Models

- ▶ Settler mortality → Type of settlement → Early institutions  
→ Current institutions → Current economic performance

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- ▶ Simplified version of a causal relationship