

POL2012: Theories and Models in Political Economy

Introduction and Economic Systems

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Practical Info

- ▶ Lectures and Seminars

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- ▶ Lectures and Seminars
- ▶ Hand-ins

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- ▶ Term Paper

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 - ▶ **Deadline: 28th October**

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 - ▶ Deadline: 28th October
- ▶ Exam

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 - ▶ 19th December

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 - ▶ 19th December
 - ▶ 4 hour written exam

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 - ▶ 4 hour written exam
- ▶ Syllabus

What is “Political Economy”?



What is “Political Economy”?

- ▶ Why should you know this?

What is “Political Economy”?

- ▶ Why should you know this?
- ▶ “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)

Relevance of Political Economy

- ▶ Economic orthodoxy

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- ▶ Economic orthodoxy
- ▶ The role of markets

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- ▶ The role of markets
- ▶ The role of government

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- ▶ The role of markets
- ▶ The role of government
- ▶ Economy as self-equilibrating

Relevance of Political Economy

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

Relevance of Political Economy

- ▶ Financial crises

Relevance of Political Economy

- ▶ Financial crises
- ▶ Climate change

Relevance of Political Economy

- ▶ Financial crises
- ▶ Climate change
- ▶ Rising inequality

Relevance of Political Economy

- ▶ Financial crises
- ▶ Climate change
- ▶ Rising inequality
- ▶ Stagnating growth

What are “Theories and Models”?

- ▶ Theory

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- ▶ Theory
- ▶ A set of logical arguments about causality

What are “Theories and Models”?

- ▶ Theory
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- ▶ What is not theory?

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 - ▶ Literature

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 - ▶ Paradigms

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 - ▶ Paradigms
 - ▶ Models

Example

“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

“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.”

Models

What is a model?

Models

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

Models

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→ Current institutions → Current economic performance
- ▶

$$\log Y_i = \alpha + \beta_i X_i + \epsilon_i \quad (1)$$

“The Seven Dimensions of Economy and Society”

- ▶ Nature

“The Seven Dimensions of Economy and Society”

- ▶ Nature
- ▶ Markets

“The Seven Dimensions of Economy and Society”

- ▶ Nature
- ▶ Markets
- ▶ State

“The Seven Dimensions of Economy and Society”

- ▶ Nature
- ▶ Markets
- ▶ State
- ▶ Class

“The Seven Dimensions of Economy and Society”

- ▶ Nature
- ▶ Markets
- ▶ State
- ▶ Class
- ▶ Gender and Ethnicity

“The Seven Dimensions of Economy and Society”

- ▶ Nature
- ▶ Markets
- ▶ State
- ▶ Class
- ▶ Gender and Ethnicity
- ▶ Social Capital

“The Seven Dimensions of Economy and Society”

- ▶ Nature
- ▶ Markets
- ▶ State
- ▶ Class
- ▶ Gender and Ethnicity
- ▶ Social Capital
- ▶ Ideology

“The Four Dimensions of Economic Performance”

- ▶ Efficiency

“The Four Dimensions of Economic Performance”

- ▶ Efficiency
- ▶ Equity

“The Four Dimensions of Economic Performance”

- ▶ Efficiency
- ▶ Equity
- ▶ Sustainability

“The Four Dimensions of Economic Performance”

- ▶ Efficiency
- ▶ Equity
- ▶ Sustainability
- ▶ “Compatibility with social goals”

“The Four Dimensions of Economic Performance”

- ▶ Efficiency
- ▶ Equity
- ▶ Sustainability
- ▶ “Compatibility with social goals”
- ▶ Growth?