

Syllabus (Fall 2023)

GV 94KL Advanced Topics in Formal Political Economics

Harvard University, FAS, Department of Government

Course leader: Prof. Konstantinos Matakos (matakos@fas.harvard.edu)

Course meeting time: Thursday 12.45 – 14.30 PM (Room: *TBD*)

Office hours: *Wed* 14.30 – 15.30 (Room: *S223 in CGIS South*)

Content and Course Description:

This course examines public policy formation, political processes and political institutions from a rational choice (RC) perspective. A one term course cannot offer a comprehensive treatment of the complex working of political systems. The emphasis is on introducing some key formal models to simplify and analyse broad classes of situations. Students are not only expected to be familiar with these models but also to be able to use them to solve problems of a technical nature. At the same time, rigorous empirical testing of formal models will be a central component of our approach to political economy. We will focus on the rational choice literature on collective action, voting, elections, interest groups, legislative organization, political agency and bureaucracies.

Coursework and Evaluation:

The course consists of a weekly 1.5-hour lecture followed by an 1-hour discussion/reading seminars. The purpose of the seminars will be to go over the solutions of the assignments (handed-in the previous week) and discuss in detail some specific readings that will be assigned each week by the instructor. All students are expected to contribute to the discussion (though participation is not part of the assessment). There will also be weekly take home problem sets. Solutions will be provided and discussed during the seminars. Problems sets are part of the assessment process and do affect the final grade (20%). Students are allowed to form study groups and collaborate in solving the problem sets but they must submit individual answers and indicate the names of collaborating classmates. There will be a **30-min group paper presentation** in the last week of term (20%) and a comprehensive 3-hour (in situ) **final exam** (in December) that worth 60% of the mark. There will be a revision session during week 11.

Readings:

Several of the readings come from the following books, which we recommend that you get access to:

1. Shepsle, Kenneth: Analyzing Politics, Norton [2010] (henceforth Shepsle)

2. Mueller, Dennis: Public Choice III, Cambridge University Press [2005] (henceforth: Mueller)

3. Persson, Torsten & Guido Tabellini: Political Economics, MIT Press [2000] (henceforth P&T)

*4. McCarty, Nolan & Adam Meirowitz: Political Game Theory, Princeton University Press [2012] (henceforth M&M)

*5. Osborne, Martin J.: An Introduction to Game Theory, Oxford University Press [2004] (henceforth Osborne)

Books in **bold** are the key readings for this course that support lecture slides. The first of the three (**Shepsle**) will be our main point of reference: it is a good introductory book covering much of the course's material at an easily understandable and non-technical level. You may use it to familiarize yourself with the main concepts before moving to a more advanced reading (such as the P&T). It cannot be sufficiently emphasised that reading lists offer only a flavour of the available literature. The Osborne and the M&M books (with *) are standard game theory textbooks with many good political economy applications and should be used as references to review some key game theory concepts.

Lecture Schedule in Brief

1. Maths refresher and intro to economic modelling
2. Preference aggregation and Social Choice (2 weeks)
3. Electoral systems, electoral behaviour, and participation
4. Electoral competition I: Spatial politics
5. Electoral competition II: Advanced topics and applications
6. Institutions, democratic transitions, and collective action
7. Political Agency
8. Bureaucracy: Elected or appointed
9. Legislative bargaining and organization
10. Interest groups and lobbying

11. Economic and political inequality

12. Group presentations

In the following pages you will find the detailed reading list for each topic. This list is indicative and can be subject to some limited change. In particular, further readings may be provided during the lectures. Readings marked with a * represent compulsory reading. All other readings are just suggestions; they will not be assessed in the final exam.

1. Mathematical Foundations: choice, optimisation and probability

To refresh your memory on some useful mathematical tools and concepts you can use:

- Simon & Blume (1994): Mathematics for Economists, Norton. (Especially chs. 2, 3, 13, 14, 17, 18, 19)
- Campbell, D. (2006): Incentives, Cambridge University Press, pp 72-89 (pp 49-60 if you use the first edition, totally equivalent)
- Varian, H. (1992): Microeconomic Analysis, (Ch. 27).

2. Preference aggregation and Social Choice

- Besley, Ch. 1*
- P&T, Ch. 1
- Shepsle, Ch. 2*, 4*.
- Mueller, (Chs. 7, 24.1, 24.2)*
- Riker, W. (1982), Liberalism against Populism, Oxford: Waveland Press, chs. 1 & 5.
- Dowding, K. (2006), 'Can Populism Be Defended? William Riker, Gerry Mackie and the Interpretation of Democracy', Government and Opposition 41 (3): 327-346.
- Mackie, G. (2003), Democracy Defended, Cambridge: Cambridge University Press, Ch. 3.
- Ordeshook, P. (1986), Game Theory and Political Theory, Cambridge University Press, Ch. 2.1 & 2.2

3. Electoral systems, electoral behaviour and participation

- Mueller, (chs. 5.1 - 5.6 & 13.1-13.7 (pp. 264-280)) *
- P&T, Ch. 2.1-2.2 *

- Shepsle, Ch. 7
- Cox, G. (1997), *Making Votes Count*, Cambridge: Cambridge University Press, ch. 4.*
- Carey, J. and S. Hix (2010), 'The electoral sweet spot', *American Journal of Political Science*, 55 (2): 383-397.*
- Boix, C. (1999), 'Setting the rules of the game: the choice of electoral systems in advanced democracies', *American Political Science Review* 93 (3): pp. 609--624.*
- Colomer, Josep M. (2005): 'It's Parties That Choose Electoral Systems (or, Duverger's Laws Upside Down)', *Political Studies* 53 (1): pp. 1-21.
- Benoit, Kenneth (2004): 'Models of electoral system change', *Electoral Studies* 23 (3): pp. 363-389.
- Matakos, K., O. Troumpounis, and D. Xefteris (2014): 'Turnout and Polarization under Alternative Electoral Systems', forthcoming in *Political Economy and Institutions* (G. Caballero and N. Schofield eds.)*
- Matakos, K., O. Troumpounis, and D. Xefteris (2015): 'Electoral Rule Disproportionality and Platform Polarization', in the *American Journal of Political Science* *

4. Electoral competition I: Spatial politics

- Downs, A. (1957), *An Economic Theory of Democracy*, New York: Harper and Row, (Chs. 1, 2, 3, 4).*
- Shepsle, Ch.5.*
- P&T, (chs. 3.1, 3.2, 3.3) *
- Mueller, (ch. 11.1 - 11.4) *
- Meltzer & Richard (1981), 'A rational theory of the size of government', *Journal of Political Economy*, 89: 914-927.*
- Lindert, P. (1996), 'What limits social spending?', *Explorations in Economic History*, 33: 1-34.
- Larcinese, V. (2007), 'Voting over redistribution and the size of the welfare state: the role of Turnout', *Political Studies*, 55: 568-585.
- Husted, T. A. and L. W. Kenny (1997), 'The effect of the expansion of the voting franchise on the size and scope of government', *Journal of Political Economy* 105: 54--82.
- Matakos, K., and D. Xefteris (2014), 'Divide and Rule: Redistribution in a Model with Differentiated Candidates', LSE PSPE 2014 Working Paper Series*
- Hotelling, Harold. 'Stability in Competition.' *Economic Journal* 39 (1929): 41-57.

5. Electoral competition II: Advanced Topics

- P&T (chs. 3.4, 5.1, 5.2, 5.3) *
- Mueller, Ch. 12 *
- Roberts, K. W. S. (1977), 'Voting Over Income Tax Schedules', *Journal of Public Economics* 8: 329-40.
- Calvert, Randall L. 'Robustness of the Multidimensional Voting Model: Candidate Motivations, Uncertainty, and Convergence.' *American Journal of Political Science* 29 (1985): 69-95.
- Alesina, Alberto. 'Credibility and Policy Convergence in a Two-Party System with Rational Voters.' *American Economic Review* 78 (1988): 796-805.*
- Besley & Coate (1997): 'An economic model of representative democracy', *Quarterly Journal of Economics*, 112, 85-114.*
- Osborne, M. J. and A. Slivinski (1997), 'The Citizen-candidate model', *Quarterly Journal of Economics*
- Butler, Lee, Moretti (2004): 'Do Voters Affect or Elect Policies? Evidence from the U.S. House', *Quarterly Journal of Economics* 119(3): 807-859. *
- Jones & Olken (2005): Do Leaders Matter? National Leadership and Growth Since World War II, *Quarterly Journal of Economics* 120 (3): pp. 835 -864
- Aragonés, Enriqueta, and Thomas R. Palfrey (2005): 'Electoral Competition Between Two Candidates of Different Quality: The Effects of Candidate Ideology and Private Information', in *Social Choice and Strategic Decisions: Studies in Choice and Welfare*, D. Austen-Smith and J. Duggan (eds.), Springer: pp. 93-112.
- Aragonés, Enriqueta, and Dimitrios Xefteris (2012): 'Candidate quality in a Downsian model with a continuous policy space', *Games and Economic Behaviour* 75 (2): 464-480. *

6. Institutions, democratic transitions and collective action

- Acemoglu D., and J. A. Robinson (2005), 'Economic Origins of Dictatorship and Democracy', MIT Press (chs. 1 & 2)*
- Barry R. Weingast (1997), "The Political Foundations of Democracy and the Rule of Law", *American Political Science Review*, pg 245.*
- Przeworski, A. "Transitions to Democracy", chapter 2 of *Democracy and the Market*, 1991.
- Olson, M. (1957), *The Logic of Collective Action*, Cambridge: Harvard University Press, chs. 1 & 2.*
- Shepsle, chs. 8, 9, 10.
- Esteban, J. and D. Ray (2001), 'Collective Action and the Group Size Paradox', *American Political Science Review* 95 (3): 663-672.

- Laver, M. (1980), 'Political Solutions to the Collective Action Problem', *Political Studies* 28 (2): 195-209.
- Ostrom, E. (1990), *Governing the Commons*, Cambridge: Cambridge University Press, (chs. 1, 2, 3, 6).
- Ostrom, E. (2000), 'Collective Action and the Evolution of Social Norms', *Journal of Economic Perspectives* 14 (3): 137-158.*

7. Political agency

- Besley, Ch. 4.*
- Shepsle, Ch. 11.*
- Barro, R. (1973), 'The Control of Politicians: An Economic Model', *Public Choice* 14: 19-42.
- Ferraz, C. and F. Finan (2011), 'Electoral Accountability and Corruption: Evidence from the Audits of Local Governments', *American Economic Review* 101(4): 1274-1311.*
- Besley, T. (2004), 'Paying Politicians: Theory and Evidence', *Journal of European Economic Association* 2(2-3): 193-215.*
- Besley, T. and A. Case (1995), 'Incumbent Behaviour: Vote-seeking, Tax-setting, and Yardstick Competition', *American Economic Review* 85(1): 25-45.
- Ferejohn, J. (1986), 'Incumbent Performance and Electoral Control', *Public Choice* 50: 5-25.
- Ashworth, S., and E. Bueno de Mesquita (2006), 'Delivering the goods: Legislative particularism in different electoral and institutional settings.' *Journal of Politics* 68(1): 168-179.*
- Galasso, V. and T. Nannicini (2011), 'Competing on Good Politicians', *American Political Science Review* 105(1): 79-99.*
- Alt, J., E. Bueno de Mesquita, and S. Rose (2011), 'Disentangling accountability and competence in elections: evidence from US term limits.' *Journal of Politics* 73(1): 171-186.

8. Bureaucracy: Elected or appointed

- Mueller, Ch. 16 *
- Shepsle, Ch. 13
- Alesina, A. and G. Tabellini (2007a), 'Bureaucrats or Politicians? Part I: A Single Policy Task', *American Economic Review* 97: 169-179.*
- Alesina, A. and G. Tabellini (2007b), 'Bureaucrats or Politicians? Part II: Multiple Policy Tasks', *Journal of Public Economics* 92(3-4): 426-447.

- Besley, T. and S. Morris (2003), 'Elected versus Appointed Regulators: Theory and Evidence', *Journal of the European Economic Association* 1(5): 1176-1206.**
- Canes-Wrone B, M. Herron, and K. Shotts (2001), 'Leadership and Pandering: A Theory of Executive Policy-making', *American Journal of Political Science* 45(3): 532-555.*
- Maskin, E., and J. Tirole (2004), 'The Politician and the Judge', *American Economic Review* 94: 1034-1054.*

9. Legislative bargaining and organisation

- Baron, D. and J. Ferejohn (1989), 'Bargaining in Legislatures', *American Political Science Review* 83 (4): 1181-1206. *
- Shepsle, Chs. 11 & 12 *
- Shepsle, K. and B. Weingast (1994), 'Positive Theories of Congressional Institutions', *Legislative Studies Quarterly* 19 (2): 149-179. *
- Diermeier, D. and R. B. Myerson (1999), 'Bicameralism and Its Consequences for the Internal Organization of Legislatures', *American Economic Review* 89 (5): 1182--1196.
- Diermeier, D. and T. Feddersen (1998), 'Cohesion in Legislatures and the Vote of Confidence Procedure', *American Political Science Review* 92 (3): 611-621.
- Gilligan, T. W. and K. Krehbiel (1990), 'Organization of Informative Committees by a Rational Legislature', *American Journal of Political Science* 34 (2): 531-564.
- Groseclose, T. (1994), 'Testing Committee Composition Hypotheses for the U.S. Congress', *Journal of Politics* 56 (2): 440-458.
- Krehbiel, K. (1990), 'Are Congressional Committees Composed of Preference Outliers?', *American Political Science Review* 84 (1): 149-163.
- Myerson, R. B. (1995), 'Analysis of Democratic Institutions: Structure, Conduct and Performance', *Journal of Economic Perspectives* 9: 77-89.
- Tsebelis, G. (2002), *Veto Players*, Princeton: Princeton University Press. (Ch. 1)
- Tsebelis, G. (1994), 'Veto Players and Law Production in Parliamentary Democracies: An Empirical Analysis', *American Political Science Review* 93 (3): 591-608. *
- Weingast, B. and W. Marshall (1988), 'The Industrial Organization of Congress: or, Why Legislatures, Like Firms, Are Not Organized as Markets', *Journal of Political Economy* 96 (1): 132-163.

10. Interest groups and lobbying

- Mueller, (chs. 15 & 20) *

- P&T, (chs. 3.5 & 7) *
- Coate, S. and S. Morris (1995), 'On the Form of Transfers in Special Interests', *Journal of Political Economy* 103 (6): 1210-1235.
- Dixit, A. and J. Londregan (1996), 'The Determinants of Success of Special Interests in Redistributive Politics', *Journal of Politics* 58 (4): 1132-1155.
- Ansolabehere, S., J. M. de Figueiredo and J. M. Snyder, Jr. (2003), 'Why Is There so Little Money in U.S. Politics?', *Journal of Economic Perspectives* 17 (1): 105-130.*
- Austen-Smith, D. (1987), 'Interest Groups, Campaign Contributions and Probabilistic Voting', *Public Choice* 54 (2): 123-140.
- Grossman, G. M. and E. Helpman (2001), *Special Interest Politics*, Cambridge, MA: MIT Press.
- Hall, R. and A. Deardoff (2006), 'Lobbying as Legislative Subsidy', *American Political Science Review* 100 (1): 69-84.*
- Koujianou Goldberg, P. and G. Maggi (1999), 'Protection for Sale: An Empirical Investigation', *American Economic Review* 89 (5): 1135-1155.**
- Potters, J. and F. Van Winden (1992), 'Lobbying and Asymmetric Information', *Public Choice* 74: 269-292.
- Bombardini, M., and F. Trebbi (2011), 'Votes or money? Theory and evidence from the US Congress.' *Journal of Public Economics* 95(7): 587-611.*
- Wolton, S. (2014), 'Lobbying, Inside and Out.' Unpublished manuscript.
- Daley, B., and E. Snowberg. 2011. 'Even if it is not Bribery: The Case for Campaign Finance Reform.' *Journal of Law, Economics, and Organization* 27(2): 324-349.*