

ECON 754 – Theory of Political Economy
Class Meetings: TueThur 9:30AM - 10:45PM
<https://umd.zoom.us/j/98983189549?pwd=VU1hSHcwYXZOeDkzSko1bG1Hdi82QT09>
Meeting ID: 989 8318 9549 Passcode: 0302
Professor Allan Drazen (Office Hours: W 3:30 -5 or by appointment.)
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This course is a first course in political economy, with the aim giving students a solid grounding in methods and subject matter of modern political economy, stressing concepts and theory. The prerequisites for this course are the first-year micro and macro sequences. There will be a final exam at the end of the semester as well as a student presentation of one area on the reading list. The course website is on ELMS.

Texts: (None is “required”)

Austen-Smith and Banks, *Positive Political Theory I and II*, U. of Michigan Press (ASB)

Drazen (2000), *Political Economy in Macroeconomics*, Princeton (D)

Grossman and Helpman, *Special Interest Politics*, MIT Press (GH)

Persson and Tabellini (2000), *Political Economics*, MIT Press (PT)

Riker (1982), *Liberalism Against Populism*, Waveland Press (R)

Roemer, J. (2001), *Political Competition: Theory and Applications*, Harvard University Press (JR)

1. Basic Electoral Models

a) Introduction and Background

[D, ch. 1](#)

[R, ch. 1](#)

[Dewan, T. and K.A. Shepsle \(2011\), “Political Economy Models of Elections,” *Annual Review of Political Science* 14, 311–30](#)

b) Equilibrium in Direct Democracy – Preference Aggregation

[PT, pp. 19-25](#)

[Levin, J. and B. Nalebuff \(2005\), “An Introduction to Vote-Counting Schemes,” *Journal of Economic Perspectives* 9\(1\), 3–26.](#)

[Caplin, A. and B. Nalebuff \(1991\), “Aggregation and Social Choice: A Mean Voter Theorem,” *Econometrica* 59\(1\), 1-23](#)

[PT, pp. 35-38](#)

[Romer, T., and Rosenthal, H. \(1978\), “Political resource allocation, controlled agendas and the status quo.” *Public Choice* 33\(4\): 27–43](#)

[Baron, D. and J. Ferejohn \(1987\), “Bargaining and Agenda Formation in Legislatures,” *American Economic Review* 77:2, pp. 303-309](#)

[Shepsle, K. and B. Weingast \(1981\), “Structure-Induced Equilibrium and Legislative Choice,” *Public Choice* 37, 503-19](#)

[ASB, *Political Theory I*, section 2.1](#)

[Geanakoplos, J. \(2005\), “Three Brief Proofs of Arrow's Impossibility Theorem,” *Economic Theory* 26\(1\), 211-215](#)

c) *Information Aggregation*

[Mueller, D. \(2003\), *Public Choice III*, Cambridge University Press, section 6.1](#)

[Austen-Smith D, and J. Banks \(1996\), "Information Aggregation, Rationality, and the Condorcet Jury Theorem," *American Political Science Review* 90, 34–45](#)

[Feddersen, T. and W. Pesendorfer \(1997\), "Voting Behavior and Information Aggregation in Elections with Private Information," *Econometrica* 65, 1029-1058](#)

[Myerson, R. \(1998\), "Population Uncertainty and Poisson Games," *International Journal of Game Theory* 27\(3\), 375–392.](#)

[Bouton, L. and M. Castanheira \(2010\), "One Person, Many Votes: Divided Majority and Information Aggregation," *Econometrica* 80, 43-87](#)

[Piketty, T. \(2000\): "Voting as Communicating," *Review of Economic Studies*, 67\(1\), 169–191](#)

2. Participation and Turnout

a) *Pivotal Voter Models*

[Cox, G. \(2010\), "Swing voters, core voters, and distributive politics," ch. 13 in I. Shapiro, et al. \(eds.\), *Political Representation*, Cambridge: Cambridge University Press, 342-357](#)

[Palfrey, T. and H. Rosenthal \(1985\), "Voter Participation and Strategic Uncertainty," *American Political Science Review* 79, 62-78](#)

[Feddersen, T. and W. Pesendorfer \(1996\), "The Swing Voter's Curse," *American Economic Review* 86, 408-24](#)

b) *Ethical Voter Models*

[Coate, S. and M. Conlin \(2004\), "A Group Rule-Utilitarian Approach to Voter Turnout: Theory and Evidence," *American Economic Review* 94, 1476-1504](#)

[Feddersen, T. and A. Sandroni \(2006\), "A Theory of Participation in Elections," *American Economic Review* 96, 1271-1282](#)

[Levine, D. and A. Mattozzi \(2017\), "Voter Turnout with Peer Punishment", working paper](#)

[Ali, S. N. and C. Lin \(2013\), "Why People Vote: Ethical Motives and Social Incentives," *American Economic Journal: Microeconomics* 5\(2\), 73–98.](#)

3. Politicians – Basic Models

a) *Equilibrium with Opportunistic Candidates*

JR, pp. [13-27](#), [52-55](#)

PT, pp. [47-58](#)

b) *Policy-Motivated Candidates*

JR, pp. [28-37](#), [55-72](#)

[Callander, S. \(2008\), "Political Motivations," *Review of Economic Studies* 75, 671-697](#)

c) *Commitment to Platforms and Candidate Entry*

[Besley, T. and S. Coate \(1997\), "An Economic Model of Representative Democracy," *Quarterly Journal of Economics* 112, 85-114](#)

[Osborne, M. and A. Slivinski \(1996\), "A Model of Political Competition with Citizen-Candidates," *Quarterly Journal of Economics* 111, 65-96](#)

Lee D., E. Moretti, and M.J. Butler (2004) "Do Voters Affect or Elect Policies? Evidence From the U.S. House," *Quarterly Journal of Economics* 119, 807-59
Banks, J. (1990), "A Model of Electoral Competition with Incomplete Information," *Journal of Economic Theory* 50, 309-325

4. Credibility of Policy

D, pp. 175-207

Backus, D. and J. Driffill (1985), "Inflation and Reputation," *American Economic Review* 75, 530-38

Vickers, J. (1986), "Signaling in a Model of Monetary Policy with Incomplete Information," *Oxford Economic Papers* 38, 443-55

Rogoff, K., (1987), "Reputational Constraints on Monetary Policy," *Carnegie-Rochester Conference Series on Public Policy* 26, 141-181

Drazen, A. and P. Masson (1994), "Credibility of Policies versus Credibility of Policymakers," *Quarterly Journal of Economics* 109, 735-54

5. Political Agency and Accountability

a) Moral Hazard

Ferejohn, J. (1986), "Incumbent Performance and Electoral Control," *Public Choice* 50, 5-26.

Besley (2006), *Principled Agents: Motivation and Incentives in Politics*, Oxford, Chapter 3

Austen-Smith D. and J. Banks (1989), "Electoral Accountability and Incumbency," in P.C. Ordeshook (ed.) *Models of Strategic Choice in Politics*, Ann Arbor: Univ. Mich. Press

b) Selection and Accountability

Banks, J. and R. Sundaram (1993), "'Adverse Selection and Moral Hazard in a Repeated Elections Model," in Barnett, ed. *Political Economy: Institutions, Information, Competition, and Representation*, Cambridge, UK: Cambridge University Press

Fearon, J. (1999), "Electoral Accountability and Control of Politicians: Selecting Good Types Versus Sanctioning Poor Performance," in Przeworski, Stokes, and Manin (eds.) *Democracy, Accountability, and Representation*, Cambridge, UK: Cambridge Univ. Press

Aruoba, B., A. Drazen, and R. Vlaicu (2019), "A Structural Model of Electoral Accountability," *International Economic Review* 60, 517-45

Alesina, A. and G. Tabellini (2007) "Bureaucrats or Politicians? Part I: A Single Policy Task," *American Economic Review* 97, 169-179.

c) Political Budget Cycles

Rogoff, K. (1990), "Equilibrium Political Budget Cycles," *American Economic Review* 80, 21-36

Brender, A. and A. Drazen (2008), "How Do Budget Deficits and Economic Growth Affect Reelection Prospects? – Evidence from a Large Panel of Countries," *American Economic Review* 98, 2203-20

6. Legislatures

a) Legislative Bargaining

Baron, D. and J. Ferejohn (1989), "Bargaining in Legislatures," *American Political Science Review* 83, 1181-1206

Austen-Smith, D. and J. Banks (1988), "Elections, Coalitions and Legislative Outcomes," *American Political Science Review* 82, 405-422

Baron, D. (1991), "A Spatial Bargaining Theory of Government Formation in Parliamentary Systems," *American Political Science Review* 85, 137-164.

Baron, D. (1993), "Government Formation and Endogenous Parties," *American Political Science Review* 87, 34-47.

Baron, D. and D. Diermeier (2001), "Elections, Governments, and Parliaments in Proportional Representation Systems." *QJE* 116, 933-967

Krehbiel, K. (1996), "Institutional and Partisan Sources of Gridlock: A Theory of Divided and Unified Government," *Journal of Theoretical Politics* 8(1), 7-40

b) Legislative Rules

Diermeier, D. and T. Feddersen (1998), "Cohesion in Legislatures and the Vote of Confidence Procedure," *American Political Science Review* 92, 611-623

Gilligan, T. and K. Kreihbel (1987), "Collective Decision-making and Standing Committees: An Informational Role for Restrictive Amendment Procedures." *Journal of Law, Economics and Organization* 3, 287-335

Dziuda, W. and A. Loeper (2016), "Dynamic Collective Choice with Endogenous Status Quo," *Journal of Political Economy* 124(4), 1148-1186

c) Legislative Dynamics

Battaglini, M. and S. Coate (2008), "A Dynamic Theory of Public Spending, Taxation and Debt," *American Economic Review* 98, 201-36

Drazen, A. and E. Ilizetzi (2018), "Kosher Pork," working paper

7. Special Interest Politics

a) Redistribution

D, ch. 8

Dixit, A. and J. Londregan (1996), "The Determinants of Success of Special Interests in Redistributive Politics," *Journal of Politics* 58, 1132-55

Myerson, R. (1993), "Incentives to Cultivate Favored Minorities under Alternative Electoral Systems," *American Political Science Review*, 87, 856-869

Alessandro Lizzeri and Niccolo Persico (2001), "The Provision of Public Goods under Alternative Electoral Incentives," *American Economic Review* 91, 225-239.

Tabellini, G. (1991), "The Politics of Intergenerational Redistribution," *Journal of Political Economy* 99, 335-57

Coate, S. and S. Morris (1995), "On the Form of Transfers to Special Interests," *Journal of Political Economy* 103, 1210-35

b) Resistance to Policy Change

Fernandez, R. and D. Rodrik (1991), "Resistance to Reform: Status Quo Bias in the Presence of Individual Specific Uncertainty," *American Economic Review* 81, 1146-55

Jain, S. and S. Mukand (2003), "Redistributive Promises and the Adoption of Economic Reform," *American Economic Review* 93, 256-64

Alesina, A. and A. Drazen (1991), "Why are Stabilizations Delayed?," *American Economic Review* 81, 1170-88

Acemoglu, D. and J. Robinson (2000), "Political Losers as a Barrier to Economic Development," *American Economic Review* 90, 126-30

Acemoglu, D. and J. Robinson (2008) "Persistence of Power, Elites and Institutions," *American Economic Review* 98, 267–93

c) Influence

GH Ch. 3

Drazen, A. and N. Limão (2008), "A Bargaining Theory of Inefficient Redistribution Policies," *International Economic Review* 49, 621-57

GH Ch. 4, 5, 6

8. Campaign Financing

Ansolabehere, S., J. de Figueiredo, J. Snyder, 2003, "Why Is There So Little Money in U. S. Politics?," *Journal of Economic Perspectives* 17, 105- 130

Bouton, L. M. Castanheira, and A. Drazen (2020) "A Theory of Small Campaign Donors," working paper

Coate, S. (2004), "Pareto Improving Campaign Finance Policy," *American Economic Review* 94, 628-55

Prat, A. (2002), "Campaign Advertising and Voter Welfare," *Review of Economic Studies* 69, 999–1018

9. Polarization and Ambiguity

Dixit, A. and J. Weibull (2007), "Political Polarization," *Proceedings of the National Academy of Sciences* 104(18), 7351-7356

Baliga, S., E. Hanany, and P. Klibanoff (2013), "Polarization and Ambiguity," *American Economic Review* 103(7): 3071–3083

Jensen, T. (2009), "Projection Effects and Strategic Ambiguity in Electoral Competition," *Public Choice* 141, 213–232

Tomz, M. and R. Van Houweling (2009), "The Electoral Implications of Candidate Ambiguity," *American Political Science Review* 103(1), 83-98

Callander, S. and C. Wilson (2008), "Context-Dependent Voting and Political Ambiguity," *Journal of Public Economics* 92, 565–581

Drazen, A. and Yucel, E. (2020), "Candidate Dislikability, Policy Extremism and Negative Advertising," working paper

10. Behavioral Political Economy

Ortoleva, P. and E. Snowberg (2015), "Overconfidence in Political Behavior," *American Economic Review* 105(7), 504-35. : 3071–3083

Bendor, J., D. Diermeier, D. Siegel & M. Ting (2011), *A Behavioral Theory of Elections*, Princeton: Princeton University Press. (BDST), chapter 2, chapter 5

Rabin, M., and J. Schrag (1999), "First Impressions Matter: A Model of Confirmatory Bias," *Quarterly Journal of Economics* 114 (1), 37–82

Glaeser, E. and G. Ponzetto (2017), "Fundamental Errors in the Voting Booth," NBER Working Paper 23683

11. Populism

Margalit, Y. (2019), "Economic Insecurity and the Causes of Populism, Reconsidered," *Journal of Economic Perspectives* 33(4), 152-170

Gennaioli, N. and G. Tabellini (2019), "Identity, Beliefs, and Political Conflict," CESifo Working Paper, No. 7707, Center for Economic Studies and Ifo Institute, Munich

Acemoglu, D., G. Egorov, and K. Sonin (2013), "A Political Theory of Populism," *Quarterly Journal of Economics* 128(2), 771-805

12. Political Parties

Krehbiel, K. (1993), "Where's the Party?," *British Journal of Political Science*, 23(1):235-66.

Snyder, J. and M. Ting (2002) "An Informational Rationale for Political Parties," *American Journal of Political Science*, 46, 90-110

Caillaud, B. and J Tirole (2002), "Parties As Political Intermediaries," *Quarterly Journal of Economics* 117, 1453-89