

Course Outline for “Political Economy” (EC 506) – Winter 2001 – Michael Spगत

Aims

To give MSc and research students in economics a strong background in the macroeconomic side of political economy. To develop students’ analytic skills. To develop students’ judgement about what constitutes a good economic argument. To prepare students to write dissertations at both the MSc and PhD levels.

Learning Outcomes

Upon completion of this course students should:

- be familiar with a wide set of models that mix macroeconomics and politics
- understand the analytics of the main approaches that are applied in this area so that they can extend their knowledge as necessary in their research
- be able to identify the applications and limitations of the models learned
- be able to suggest ways in which the models learned might be extended or improved

Course delivery

We will meet for two hours each week. The general format will be lectures with ample opportunities for student participation. There will be regular problem sets that we will discuss in class. I will provide full answer sheets for the homework and a complete set of class notes.

I am always available during posted office hours. Students can knock on my door at any time and I will almost always see them immediately or at least by the end of the day.

Assessment

A 3-hour unseen examination covering this term plus Anthony Heyes’ Autumn term is 100% of the final grade.

Reading

The lectures are self-contained and cover all the required material. Readings are for students seeking more depth on a particular subject. I suggest that such students begin with unstarred reading and then move on to starred readings if they still seek more depth. The Drazen book is another self-contained and far more comprehensive treatment. The Persson and Tabellini article is another excellent survey. All readings below are either on short loan in the library or in JSTORE.

Weeks 1 & 2. Voting

Drazen, Allan, *Political Economy in Macroeconomics*, Princeton University Press, 2000, ch. 3.

Mueller, Dennis, *Public Choice II*, Cambridge University Press, 1989, chapters 5-8.

* Mueller, Dennis, *Public Choice II*, Cambridge University Press, 1989, chapters 1-4, 9.

*Miller, Gary, “The impact of economics on contemporary political science”, *Journal of Economic Literature*, September 1997, pp. 1173-1204.

*Mueller, Dennis, *Perspectives on Public Choice: A Handbook*, Cambridge University Press, 1997, chapters 7-11. (articles by Enelow, Rae and Schickler, Young, Pattanaik and Tideman).

*You should now understand cycling, logrolling, the median voter theorem, the dependence of choices on voting rules, and Arrow’s Impossibility Theorem.**

Weeks 3 & 4. Time Inconsistency

Drazen, Allan, *Political Economy in Macroeconomics*, Princeton University Press, 2000, chs. 4-6.

Persson, Torsten and Guido Tabellini, “Political Economics and Macroeconomic Policy”, forthcoming in Taylor, J. and M. Woodford (eds.), *Handbook of Macroeconomics*, sections 1, 2, 4, 5

*Persson, Torsten and Guido Tabellini, “*Monetary and Fiscal Policy*”, Volume 1, MIT Press, Cambridge MA, 1995.

*You should now know the general structure of time inconsistency problems, specific applications to taxation and monetary policy, and the main approaches to that have been put forward to deal with the problem.**

Weeks 5 & 6. Election Effects

Drazen, Allan, *Political Economy in Macroeconomics*, Princeton University Press, 2000, chs. 4-6.

Persson, Torsten and Guido Tabellini, “Political Economics and Macroeconomic Policy”, forthcoming in Taylor, J. and M. Woodford (eds.), *Handbook of Macroeconomics*, sections 3 & 6.

*Alesina, Alberto and Nouriel Roubini with Gerald Cohen, *Political Cycles and the Macroeconomy*, MIT Press, Cambridge MA, 1997.

*You should now understand the main approaches to political business cycles as well as be able to analyze the strategy of one government “tying the hands” of its successor.**

Weeks 7 & 8. Growth and Politics

Drazen, Allan, *Political Economy in Macroeconomics*, Princeton University Press, 2000, ch. 10.

Persson, Torsten and Guido Tabellini, “Political Economics and Macroeconomic Policy”, forthcoming in Taylor, J. and M. Woodford (eds.), *Handbook of Macroeconomics*, Section 7.

Overland, Jody, Kenneth Simons and Michael Spagat, “Political Instability and Growth in Dictatorships”, CEPR Working paper number 2653, downloadable on <http://www2.rhbc.ac.uk/~uhte014/Research.htm>

*Persson, Torsten and Guido Tabellini, “*Monetary and Fiscal Policy*,” Volume 2, MIT Press, Cambridge MA, 1995.

*You should now understand the main models on the relationship between growth and inequality as mediated by democratic politics as well as my own model on growth and dictatorship.**

Weeks 9 & 10. Policy Reform

Drazen, Allan, *Political Economy in Macroeconomics*, Princeton University Press, 2000, ch. 13

Alesina, Alberto and Allan Drazen, “Why are Stabilizations Delayed,” *American Economic Review*, 81, 1991, 1170-1188.

Dewatripont, Mathias and Gerard Roland, “Economic Reform and Dynamic Political Constraints,” *Review of Economic Studies*, 59, 1991, 703-730.

Dewatripont, Mathias and Gerard Roland, “Transition as a Process of Large-Scale Institutional Change,” *Economics of Transition*, 4, 1996, 1-30.

Fernandez, Raquel and Dani Rodrik, “Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty,” *American Economic Review*, 81, 1991, 1146-1155.

Shleifer, Andrei and Robert Vishny, “Politicians and Firms,” *Quarterly Journal of Economics*, 114, 1994, 995-1025.

*Blanchard, Olivier, *The Economics of Post-Communist Transition*, Oxford University Press, 1997.

*Rodrik, Dani, “Understanding Economic Policy Reform,” *Journal of Economic Literature*, 34, 1996, 9-41.

*Shleifer, Andrei and Daniel Treisman, “Without a Map, MIT Press, 2000.

*You should now understand some of the literature on the role of politics and political constraints on economic policy reform with particular reference to the transition from communism.**

**In all cases “understanding” means knowing how to manipulate and solve problems based on the models presented in class, being able to identify applications and limitations of these models and being able to extend and construct variations on them.*