

Political Economy Core
G53.1400
Spring 2006

Professor: Catherine Hafer
Thursdays 4:00-6:00
Room 700, 726 Broadway

Office Hours: Tuesdays 2:30-4:00
Office: 755, 726 Broadway
e-mail: catherine.hafer@nyu.edu

Requisite Coursework

Students must have completed G53.1110 and be enrolled in (or have completed) G53.2108.

Course Description

The primary goal of this course is to introduce students to a broad range of topics in contemporary political economy, i.e. in the study of phenomena that are both political and economic in nature. Although the works we will discuss cover a variety of substantive issues, they share a unifying methodological and conceptual framework, commonly known as rational choice theory. The readings have been selected to familiarize students with the canonical models that inform much of the work of formal political economists, and emphasis will be given to understanding and critiquing formal work.

Course Requirements

Course grades will be determined by four graded problem sets (50%), class participation (10%), and the final exam (40%). While I encourage you to work together on the problem sets, the solutions you submit ought to reflect only your own work and understanding. The problem sets are an irreplaceable opportunity to learn the material, and students benefit from struggling with them independently before discussing them with others. The final exam will be the independent work of each student.

Students are urged to ask questions, answer questions, and tackle problems in the classroom. Active and constructive behavior in the classroom enhances everyone's learning experience and develops skills that are requisite in a scholarly community.

Introduction

0. Reading and Critiquing Formal Models

Part 1: Voting

1. Median Voter Theorem

Study:

David Austen-Smith and Jeffrey Banks, *Positive Political Theory I*, U of Michigan Press, 1998, Ch. 4 Sections 1-4

Timothy Besley and Stephen Coate, "An Economic Model of Representative Democracy," *QJE* 1997, pp. 85-114.

2. Order-Restriction, Tax Choice and Re-distribution

Study:

David Austen-Smith and Jeffrey Banks, *Positive Political Theory I*, U of Michigan Press, 1998, Ch. 4 Sections 5-7

Allan Meltzer and Scott F. Richard, "A Rational Theory of the Size of Government," *JPE* 1981, pp. 914-927.

Read:

Roland Benabou, "Inequality and Growth," *NBER Macro-Economics Annual, 1997*. MIT Press.

Assignment 1

3. Agenda-Setter

Study:

Thomas Romer and Howard Rosenthal, "Political Resource Allocation, Controlled Agendas, and the Status Quo," *Public Choice* 1978.

Thomas Romer and Howard Rosenthal, "Bureaucrats Versus Voters: On the Political Economy of Resource Allocation by Direct Democracy," *QJE*, Vol. 93, No. 4. (Nov., 1979), pp. 563-587.

Jacques Cremer and Thomas Palfrey, "Federal Mandates by Popular Demand," *JPE* 2000.

Background:

Martin J. Osborne, *An Introduction to Game Theory*, Oxford UP, 2004, Ch. 5-6.1.

4. Time-Inconsistency and Commitment

Study:

Per Krusell and Jose-Victor Rios-Rull. "Vested Interests in a Positive Theory of Stagnation and Growth." *REStud*, 1996, pp. 301-329.

Read:

Avinash Dixit and John Londregan, "Re-distributive Politics and Economic Efficiency," *APSR*, 1995, pp. 856-866.

Paul R. Milgrom, Douglass C. North, and Barry R. Weingast, "The Role of Institutions in the Revival of Trade: the Law Merchant, Private Judges, and the Champagne Fairs," *Economics and Politics* 2 (1) (March 1990), pp. 1-23.

Background:

Allan Drazen, *Political Economy in Macroeconomics*, Princeton UP, 2000, Chapter 2 Section 4 (on overlapping generations)

Martin J. Osborne, *An Introduction to Game Theory*, Oxford UP, 2004, Ch. 14 (on repeated games)

Assignment 2

Part 2: Bargaining and Public Goods

5. Non-Cooperative Bargaining

Study:

David P. Baron, "A Dynamic Theory of Collective Goods Programs," *APSR*, Vol. 90, No. 2. (Jun., 1996), pp. 316-330.

Read:

David P. Baron and John A. Ferejohn, "Bargaining in Legislatures," *APSR*, Vol. 83, No. 4. (Dec., 1989), pp. 1181-1206.

Background:

Martin J. Osborne, *An Introduction to Game Theory*, Oxford UP, 2004, Ch.16 Sections 1-2

Sheldon M. Ross, *Introduction to Probability Models*, 6th edition, Academic Press, 1997, Ch. 4 Sections 1-2, 10.

6. Provision of Public Goods

Study:

Thomas Palfrey and Howard Rosenthal, "Participation and the Provision of Discrete Public Goods: A Strategic Analysis," *JPubEcon* 24, pp. 171-193.

Alessandro Lizzeri and Nicola Persico, "The Provision of Public Goods under Alternative Electoral Incentives," *AER*, Vol 91, No. 1 (March 2001), pp. 225-239.

Read:

John Ledyard, "The Pure Theory of Large Two-Candidate Elections," *Public Choice*, 44 (1984), pp. 7-41.

Herve Moulin, "Characterizations of the Pivotal Mechanism," *JPubEcon* 31 (1986), 53-78.

Background:

Martin J. Osborne, *An Introduction to Game Theory*, Oxford UP, 2004, Ch. 2 Section 6 and Ch. 7 Section 7.

Assignment 3

7. Externalities

Study:

V. V. Chari and Charles Jones, "A Reconsideration of the Problem of Social Cost: Free Riders and Monopolists," *Econ. Theory* 16, no. 1 (2000): 1-22.

Skim:

Ronald Coase, "The Problem of Social Cost," *JLawEcon*, 1961.

Yoram Barzel, *Economic Analysis of Property Rights*, Cambridge UP, 1997, pp. 3-15, 77-78.

Background:

Andreu Mas-Colell, Michael D. Whinston, and Jerry R. Green, *Microeconomic Theory*, Oxford UP, 1995, pp. 360, 363-64.

Part 3: Appropriative Activity and Rent-Extraction

8. Regulation and Lobbying

Study:

Avinash Dixit and John Londregan, "The Determinants of Success of Special Interests in Distributive Politics," *JoP*, Vol. 58, No. 4. (November 1996), pp. 1132-1155.

Sanford Gordon and Catherine Hafer, "Flexing Muscle: Corporate Political Expenditures as Signals to Bureaucracy," *APSR*, Vol. 99, No. 2 (May 2005), pp. 245-261.

Read:

Gene M. Grossman and Elhanan Helpman, *Special Interest Politics*, MIT Press, 2001, Part II.

Background:

Jeffrey S. Banks, *Signaling Games in Political Science*, Harwood Academic, 1991, pp. 1-9 and 18-23.

9. Corruption

Study:

Andrei Shleifer and Robert Vishny, "Corruption," *QJE*, Vol. 108, No. 3. (Aug., 1993), pp. 599-617.

Read:

Roger Myerson, "Economic Theory of Political Institutions," *Advances in Economics and Econometrics: Theory and Applications: Seventh World Congress*, David M. Kreps and Kenneth F. Wallis, eds., 1997.

Assignment 4

10. Economic and Political Transitions

Study:

Maxim Boycko, Andrei Shleifer, and Robert W. Vishny, "A Theory of Privatization," *The Econ J*, Vol. 106, No. 435 (March 1996), pp. 309-319.

Karla Hoff and Joseph Stiglitz, "After the Big Bang? Obstacles to the Emergence of the Rule of Law in Post-Communist Societies," *The American Economic Review*, Vol. 94, No. 3, (June 2004), pp. 753-763.

11. Conflict and Property Rights

Study:

Catherine Hafer, "On the Origins of Property Rights: Conflict and Production in the State of Nature," *REStud*, Vol. 73, No. 1 (January 2006), pp. 1- 26.

Read:

Abhinay Muthoo, "A Model of the Origins of Basic Property Rights," *Games and Economic Behavior*, November 2004, pp. 288-312.

Randall L. Calvert, "The Rational Choice Theory of Social Institutions: Cooperation, Coordination, and Communication," in J. Banks and E. Hanushek, eds., *Modern Political Economy: Old Topics, New Directions*. Cambridge UP, 1995.

Background:

Martin J. Osborne, *An Introduction to Game Theory*, Oxford UP, 2004, Ch. 3 Section 4.

Drew Fudenberg and Jean Tirole, *Game Theory*, MIT Press, 1991, pp. 216-219.

Exam