

ECON 754 – Theory of Political Economy – Fall 2022
Class Meetings: Monday Wednesday 11AM – 12:15PM
Professor Allan Drazen (Office Hours: W 3:30 -5 or by appointment.)
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Course Aim: To give a solid grounding in methods and subject matter of modern political economy, stressing concepts and theory; Background for empirical work; Learn to use basic models

Prerequisite: First-year micro sequence (or equivalent).

Requirements: 1. Final exam at the end of the semester; 2. Student presentation of one area on the reading list; 3. I will give you a large number of exercises, and, with a lag, solutions to some of the exercises. Not required, but recommended you do some, where you can decide what is useful for you.

Readings: Most are linked, but an old website <https://sites.google.com/site/econ754/> should also contain readings. There is a course page on [ELMS](#) where I will put new material and lecture notes used in 2020, when I taught remotely. **We can also modify the reading list according to your interests.**

Lecture notes: I will also send out detailed lecture notes on each topic. Most of these are from last year, but I will make corrections and revisions. You should bring them to class (either hard copy or digital), as I will often refer to diagrams rather than redrawing those diagrams in class. You should of course feel free to take notes on them.

UMD Guidelines: UMD's policies on graduate courses and graduate student rights and responsibilities can be found here: [Course Related Policies | The University of Maryland Graduate School \(umd.edu\)](#). Here is another link you might find useful. <https://faculty.umd.edu/main/activity/teaching-policies-guidelines#syllabus-guidelines>. If you have any questions about these or other course-related issues, do not hesitate to ask me.

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](#)

[Meltzer, A. and S. Richard \(1981\), "A Rational Theory of the Size of Government," *Journal of Political Economy* 89, 914-27.](#)

[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, T. \(2006\), *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. Krehbiel \(1987\), "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. Ilzetzki \(2022\), "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](#)

[Lizzeri, A. and N. 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. Kliбанoff \(2013\), "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. \(2021\), "Candidate Valence and Policy Choice," working paper. \(I will distribute an updated version.\)](#)

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](#)