

Political Science 840

Political Economy Seminar

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Mondays 3:30-5:25 p.m.
North Hall 422

Office Hours

Mondays and Wednesdays, 11:00 a.m. – noon, 205 La Follette
Wednesdays, 1:00 p.m. – 3:00 p.m., 215 North Hall
Appointments for other times welcome.

Overview

Until the late nineteenth century, the study of political and economic institutions was encompassed by the single discipline of political economy. With the development of classical economic theory on the one hand, and growing interest in public administration on the other, separate disciplines of economics and political science emerged to replace political economy. The new disciplines drifted apart, both substantively and methodologically, so that the study of economics became largely divorced from the study of politics despite their obvious connections. Eventually, the public choice movement challenged the prevalent assumption among economists that the government could be reasonably viewed as a benevolent provider of rules. About the same time, some political scientists began applying the rational actor assumption commonly used by economists to try to understand better individual choice and political institutions. The intermingling of these intellectual streams provides the foundation for modern political economy. The objective of this course is to provide an introduction to the content and methods of modern political economy.

Political economy encompasses diverse and voluminous literatures. Consequently, an introductory survey must be very selective in terms of both its readings and topics. In assembling the reading list, I have tried to select a mix of work that includes conceptual essays, topic overviews, and representative empirical work of various sorts. The topics covered include two fundamental concerns of political economists (economic voting as a process connecting the electorate to economic policy makers and property rights as important institutions at the nexus between political and economic behavior), important subject areas (regulation and trade policy), and important analytical tools (game theory, social choice theory, and institutional theory). Most sessions will be organized as seminars in which I expect your full participation. I will give lectures or extended introductions in the four sessions dealing with applied welfare economics, game theory, and social choice theory.

Expectations and Evaluation

In addition to completing the required reading and actively participating in seminar discussion, you should plan on submitting a one-page reaction to the readings prior to each session. It should briefly state two or three questions or observations that you would like the class to discuss. After the first-week, the reaction paper is due at 9:00 p.m. on the Sunday before class. It should be submitted by e-mail to me and other seminar participants.

You should plan on accumulating 100 points over the course of the semester. The following activities earn points:

Presentation of single reading (5 points): Present a 10 to 15 minute critique of a single reading. Please confirm with me one week in advance.

Presentation of weekly readings (25 points): Present an overview of all the readings for a particular week that shows how they are related. Please confirm with me at least one week in advance.

Literature review (50 points): Select a question in political economy and provide a thoughtful review of literature relevant to it. Please confirm topic with me. Your review is due no later than the last session.

Research proposal (70 points): Prepare a proposal for a research project on a topic in political economy. Most likely, it will set out a researchable question and provide a plan for an empirical investigation to answer the question. Please keep me informed of your intentions and progress. Your proposal is due no later than the last session.

Research paper (90 points): Plan and execute a research paper. You should be thinking in terms of a paper sufficiently developed to be appropriate for presentation at an academic conference. Please keep me informed of your intentions and progress. Your paper is due by the end of examination week.

Your course grade will be based on your seminar participation and how well you execute the tasks you select to accumulate points.

Recommended for Purchase

We will be reading most of the following three books, which I recommend you purchase.

Jeffrey S. Banks and Eric A. Hanushek, eds., *Modern Political Economy: Old Topics, New Directions* (New York: Cambridge University Press, 1995).

William R. Keech, *Economic Politics: The Cost of Democracy* (New York: Cambridge University Press, 1995).

Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*

(New York: Cambridge University Press, 1990).

We will also be reading multiple chapters from the following two books, which you may want to purchase. I especially recommend Morrow if you do not already have an introductory game theory text. I recommend Weimer and Vining if you plan on doing public policy as part of your American field.

James D. Morrow, *Game Theory for Political Scientists* (Ann Arbor: University of Michigan Press, 1994).

David L. Weimer and Aidan R. Vining, *Policy Analysis: Concepts and Practice* 3rd Edition (Upper Saddle River, New Jersey: Prentice Hall, 1999).

September 9: Introduction

Banks and Hanushek: "Introduction," pp. 1-9.

Thráinn Eggertsson, *Economic Behavior and Institutions* (New York: Cambridge University Press, 1990): Chapter 1 "Generalizing Neoclassical Economics: New Tools and Concepts," pp. 3-32.

F. A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35:4 (1945), 519-530.

Keech: Chapter 1 "Macroeconomic Politics and the Cost of Democracy," pp. 3-21; Chapter 2 "Macroeconomic Theories and Their Political Implications," pp. 22-44.

Senhil Mullainathan and Richard H. Thaler, "Behavioral Economics," National Bureau of Economic Research Working Paper 7948, October 2000. (www.nber.org/papers/w7948)

September 16: Applied Welfare Economics

David L. Weimer and Aidan R. Vining, *Policy Analysis: Concepts and Practice* 3rd Edition (Upper Saddle River, New Jersey: Prentice Hall, 1999): Chapter 4 "Efficiency and the Ideal Competitive Market," pp. 58-73; Chapter 5 "Rationales for Public Policy: Market Failures," pp. 74-115; Chapter 6 "Rationales for Public Policy: Other Limitations of the Competitive Framework," pp. 116-133; Chapter 7 "Rationales for Public Policy: Distributional and Other Goals," pp. 134-158.

September 23: Economic Voting – Retrospective/Prospective, Pocketbook/Sociotropic

Anthony Downs, *An Economic Theory of Democracy* (New York: Harper & Row, 1957): Chapters 7 "The Development of Political Ideologies," pp. 96-113; Chapter 8 "The

Statics and Dynamics of Party Ideologies,” pp. 114-141.

Keech: Chapter 6 “Voters, Elections, Accountability and Choice,” pp. 127-149.

Michael S. Lewis-Beck, “Comparative Economic Voting: Britain, France, Germany, and Italy,” *American Journal of Political Science* 30:2 (1986), 315-346.

Robert C. Lowry, James E. Alt, and Karen E. Ferree, “Fiscal Policy Outcomes and Electoral Accountability in American States,” *American Political Science Review* 92:4 (1998), 759-774.

Diana C. Mutz and Jeffery J. Mondak, “Dimensions of Sociotropic Behavior: Group-Based Judgments of Fairness and Well Being,” *American Journal of Political Science* 41:1 (1997), 284-308.

Richard G. Niemi, Harold W. Stanley, and Ronald J. Vogel, “State Economies and State Taxes: Do Voters Hold Governors Accountable?” *American Journal of Political Science* 39:4 (1995), 936-57.

September 30: Opportunistic and Partisan Economic Policy Models

Keech: Chapter 3 “Models of Accountability and Opportunism: The Electoral Cycle,” pp. 47-65; Chapter 4 Models of Choice: Partisanship,” pp. 66-69.

Alberto Alesina, “Elections, Party Structure, and the Economy,” in Banks and Hanushek, Chapter 5, pp. 145-170.

Robert J. Franzese, Jr., “Partially Independent Central Banks, Politically Responsive Governments, and Inflation,” *American Journal of Political Science* 43:3 (1999), 681-706.

October 7: Introduction to Game Theory – Classical

Morrow: Chapter 3 “Specifying a Game,” pp. 51-72; Chapter 4 “Classical Game Theory,” pp. 73-120.

October 14: Introduction to Game Theory – Extensive Form

Morrow: Chapter 5 “Solving Extensive Form Games: Backwards Induction and Subgame Perfection,” pp 121-160.

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

October 21: Introduction to Social Choice Theory

John H. Aldrich, *Why Parties? The Origin and Transformation of Party Politics in America* (Chicago: University of Chicago Press, 1995): Chapter 2: "Why Parties Form," pp. 28-61.

Keith Krehbiel, "Spatial Models of Legislative Choice," *Legislative Studies Quarterly* 13:3 (1988), 259-319.

Kenneth A. Shepsle and Mark S. Bonchek, *Analyzing Politics: Rationality, Behavior, and Institutions* (New York: W.W. Norton & Company, 1997): Chapter 4 "Group Choice and Majority Rule," pp. 49-81.

October 28: Rent Seeking and Regulation

David P. Baron, "The Economics and Politics of Regulation: Perspectives, Agenda, and Approaches," in Banks and Hanushek, Chapter 1, pp. 10-62.

Jagdish N. Bhagwati, "Directly Unproductive, Profit-Seeking Activities," *Journal of Political Economy* 90:5 (1982), 988-1002.

Douglas D. Heckathorn and Steven M. Maser, "Bargaining and the Sources of Transaction Costs: The Case of Government Regulation," *Journal of Law, Economics, and Organization* 3:1 (1987), 69-97.

Robert D. Tollison, "Rent Seeking: A Review," *Kyklos* 35:4 (1982), pp. 575-601.

Gordon Tullock, "The Transitional Gains Trap," *Bell Journal of Economics* 6:2 (1975), 671-678.

Weimer and Vining, "Limits to Public Intervention: Government Failure," Chapter 8, pp. 159-195.

November 4: Political Economy of Trade Policy

Marc L. Busch and Eric Reinhardt, "Industrial Location and Protection: The Political Economy and Economic Geography of U.S. Nontariff Barriers," *American Journal of Political Science* 43:4 (1999), 1028-1050.

Douglas A. Irwin and Randall S. Kroszner, "Interests, Institutions, and Ideology in Securing Policy Change: The Republican Conversion to Trade Liberalization after Smoot-Hawley," *Journal of Law and Economics* 42:2 (1999), 643-673.

Suzanne Lohmann and Sharyn O'Halloran, "Divided Government and U.S. Trade Policy: Theory and Evidence," *International Organization* 48:4 (1994), 595-632.

Edward D. Mansfield, Helen V. Milner, and B. Peter Rosendorff, "Free Trade: Democracies, Autocracies, and International Trade," *American Political Science Review* 94:2 (2000), 305-321.

Iain McLean, *Rational Choice & British Politics: An Analysis of Rhetoric and Manipulation From Peel to Blair* (New York: Oxford University Press, 2001): Chapter 2 "Irish Potatoes and British Politics: Peel, Wellington, and the Repeal of the Corn Laws," pp. 33-56.

Raymond Riezman and John D. Wilson, "Politics and Trade Policy," Banks and Hanushek: Chapter 4, pp. 108-144.

November 11: Creation of Property Rights

Harold Demsetz, "Toward a Theory of Property Rights," *American Economic Review* 57:2 (1967), 347-359.

Gary D. Libecap, "Economic Variables and the Development of the Law: Western Mineral Rights," *Journal of Economic History* 38:2 (1978), 338-362.

William H. Riker and Itai Sened, "A Political Theory of the Origin of Property Rights: Airport Slots," *American Journal of Political Science* 35:4 (1991), 951-969.

Fred S. McChesney, "Government as Definer of Property Rights: Indian Lands, Ethnic Externalities, and Bureaucratic Budgets," *Journal of Legal Studies* 19:2 (1990), 297-335.

Hernando de Soto, *The Other Path* (New York: Harper & Row, 1989): Chapter 2 "Informal Housing," pp. 17-57.

November 18: Theory of Institutions and Cooperation

Randall L. Calvert, "The Rational Choice Theory of Social Institutions: Cooperation, Coordination, and Communication," Banks and Hanushek: Chapter 8, 216-267.

Jonathan Bendor and Dilip Mookerjee, "Institutional Structure and the Logic of Ongoing Collective Action," *American Political Science Review* 81:1 (1987), 129-154.

Paul Pierson, "Increasing Returns, Path Dependence, and the Study of Politics," *American Political Science Review* 94:2 (2000), 251-267.

November 25: Common Property

Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (New York: Cambridge University Press, 1990).

Burno S. Frey and Heinz Buhofer, "Prisoners and Property Rights," *Journal of Law and Economics* 31:1 (1988), 19-46.

December 2: Property Rights: Credibility and Transitions

Daniel Diermeier, Joel M. Ericson, Timothy Frye, and Steven Lewis, "Credible Commitment and Property Rights: The Role of Strategic Interaction between Political and Economic Actors," in David L. Weimer, ed., *The Political Economy of Property Rights* (New York: Cambridge University Press, 1997). Chapter 2, pp. 20-42.

Timothy Frye, "Russian Privatization and the Limits of Credible Commitment," Weimer: Chapter 4, 84-108.

Douglass C. North and Barry R. Weingast, "Constitutions and Credible Commitments: The Evolution of the Institutions of Public Choice in 17th Century England," *Journal of Economic History* 49:4 (1989), 803-832.

William H. Riker and David L. Weimer, "The Political Economy of Transformation," Banks and Hanushek: Chapter 3, pp. 80-107.

Johan Torstensson, "Property Rights and Economic Growth: An Empirical Study," *Kyklos*, 47:2 (1994), 231-247.

December 9: Revelation of Political Expectations in Markets

William Bernhard and David Leblang, "Democratic Processes, Political Risk, and Foreign Exchange Markets," *American Journal of Political Science* 46:2 (2002), 316-333.

James A. Brander, "Election Polls, Free Trade, and the Stock Market: Evidence from the 1988 Canadian General Election," *Canadian Journal of Economics* 24:4 (1991), 827-843.

Bruce Bueno De Mesquita, "Pride of Place: The Origins of German Hegemony," *World Politics* 43:1 (1990), 28-52.

David Newman and David L. Weimer, "The Credibility of the PRC Commitment to a Market Economy in Hong Kong: Hypotheses and Evidence," *Economics & Politics* 9:3 (1997), 251-280.