

Econ 7384: Political Economy
Department of Economics, University of Houston
Fall 2018

Instructor: Gergely Ujhelyi

Office: 223C McElhinney Hall. Office hours: by appointment.

E-mail: gujhelyi@uh.edu

Lectures: T, Th 10-11.30 in M 101.

This graduate course provides an introduction to the field of modern political economy. We will discuss formal theories and empirical work seeking to understand political behavior such as voting, running for office, and lobbying, and the implications of these behaviors for economic policies and institutions. In turn, we will look at how “institutions,” such as civil service rules or campaign finance regulations, shape the behavior of government.

The course will be especially useful to students specializing in Public economics or Development economics, and will provide a valuable background to anyone interested in public policies.

Prerequisites

First year graduate Micro and Econometrics, or permission of the instructor.

Assignments and grading

There will be 2 problem sets (20%), a paper presentation (10%), a mock referee report (20%), and a final exam (50%).

For the presentation, each student will sign up to present one of the papers marked ** below.

The mock referee report can be replaced with a research paper. This must be approved by me before the referee report is assigned.

Various requests and policies

In order to make our time together as pleasant as possible and to make sure that everybody gets the most out of this class, please observe the following requests.

1. Please be on time. Late arrivals are distracting to both me and your fellow students.
2. Do not leave before the end of class. This is also very distracting.
3. During exams, if you finish early, please leave as quietly as possible. Please do not leave in the last 10 minutes (so if you finish 8 minutes early, please wait 8 minutes before you leave).
4. If you miss a class, please make sure you review what you missed before asking questions on the next class.
5. You're welcome to eat during class, but please avoid noisy plastic wrappers and items with a strong smell.
6. If you'd like to make an appointment with me, email me. I will respond with a few possible times when I can meet you. Please respond to this email (do not assume that I'll leave those times open for you if you do not respond).

Academic Honesty: Students are responsible for being familiar with, and abiding by, the university's Academic Honesty Policy (<https://www.uh.edu/provost/policies-resources/honesty/>). Faculty have the responsibility of reporting incidents of alleged academic dishonesty. I would hate, but will not hesitate, to do this so please do not put me in this situation.

Students with Disabilities: The University of Houston System complies with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, pertaining to the provision of reasonable academic adjustments/auxiliary aids for students with a disability. In accordance with Section 504 and ADA guidelines, the University of Houston strives to provide reasonable academic adjustments/auxiliary aids to students who request and require them. Students seeking accommodation in this course should contact the instructor after obtaining the appropriate documentation through the UH Center for Students with Disabilities.

Counseling and Psychological Services: Counseling and Psychological Services (CAPS) can help students who are having difficulties managing stress, adjusting to college, or feeling sad and hopeless. You can reach CAPS (www.uh.edu/caps) by calling 713-743-5454 during and after business hours for routine appointments or if you or somebody you know is in crisis. No appointment is necessary for the "Let's Talk" program, a drop-in consultation service at convenient locations and hours around campus. http://www.uh.edu/caps/outreach/lets_talk.html

Textbooks and surveys

Political economy is a vast field overlapping with many others, and no single textbook covers exactly the topics we will cover. Some of the readings below are from the following two books:
Persson, T., and G. Tabellini (2002): *Political Economics: Explaining Economic Policy*, MIT Press. (PT)

Grossman, G.M., and E. Helpman (2001): *Special Interest Politics*, MIT Press. (GH)

Other useful textbooks / surveys to look at:

Besley, T. (2007): *Principled Agents? The political economy of good government*, Oxford University Press.

Drazen, A. (2000): *Political Economy in Macroeconomics*, Princeton University Press.

Mueller, D.C. (2003): *Public Choice III*, Cambridge University Press.

Persson, T., and G. Tabellini (2003): *The Economic Effects of Constitutions*, MIT Press.

Weingast, B.R. and D.A. Wittman (eds.) (2006): *The Oxford Handbook of Political Economy*, Oxford University Press.

Tentative agenda and readings

(required readings are marked *; papers for student presentations are marked **)

I. CLASSICAL APPROACHES TO POLICY FORMATION

I.1 The limits of 'black box' government

PT Chapter 1

*Knight, B. (2002): "Endogenous federal grants and crowd-out of state government spending: theory and evidence from the federal highway aid program," *American Economic Review* 92(1), 71-92.

I.2 The median voter theorem

*PT Chapter 2

*Alesina, A., R. Baqir; and W. Easterly (1999): "Public Goods and Ethnic Divisions," *The Quarterly Journal of Economics* 114(4), 1243-1284.

II. VOTERS

II.1 Background

Lijphart, A. (1997): "Unequal Participation: Democracy's Unresolved Dilemma," *The American Political Science Review* 91(1), 1-14.

*Merlo, A. (2006): "Whither Political Economy? Theories, Facts and Issues," Section 2. (Available on the author's website.)

GH Chapter 3.1

II.2 The pivotal voter model

*Palfrey, T. R., and H. Rosenthal (1983): "A Strategic Calculus of Voting," *Public Choice* 41, 7-53.

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

Börger, T. (2004): "Costly Voting," *American Economic Review* 94(1), 57-66.

**Duffy, J., and M. Tavits (2008): "Beliefs and Voting Decisions: A Test of the Pivotal Voter Model," *American Journal of Political Science* 52(3), 603-618.

*Coate, S., M. Conlin and A. Moro (2008): "The Performance of the Pivotal-Voter Model in Small-Scale Elections: Evidence from Texas Liquor Referenda," *Journal of Public Economics* 92, 582-596

II.3 Information, voting and turnout

Feddersen, T.J., and W. Pesendorfer (1996): "The Swing Voter's Curse," *American Economic Review* 86, 408-424.

Snyder, J., and D. Stromberg (2010): "Press Coverage and Accountability," *Journal of Political Economy* 118(2), 355-408.

**Gentzkow, M. (2006): "Television and voter turnout," *Quarterly Journal of Economics* 121(3), 931-72.

Gentzkow, M., J.M. Shapiro, and M. Sinkinson (2011): "The Effect of Newspaper Entry and Exit on Electoral Politics," *American Economic Review* 101, 2980-3018.

II.4 Other determinants of voting and turnout

- **Fujiwara, T. (2015): “Voting Technology, Political Responsiveness, and Infant Health: Evidence From Brazil,” *Econometrica* 83(2), 423-464.
- **DellaVigna, S., J.A. List, U. Malmendier, and G. Rao (2017): “Voting to Tell Others,” *The Review of Economic Studies* 84(1), 143–181.
- Coate, S. and M. Conlin (2004): “A Group Rule-Utilitarian Approach to Voter Turnout: Theory and Evidence,” *American Economic Review* 94, 1476-1504.
- Washington, E. (2006): “How Black Candidates Affect Voter Turnout,” *Quarterly Journal of Economics* 121(3), 973-998.
- G. Ujhelyi, S. Chatterjee, and A. Szabó (2018): “None Of The Above,” working paper.

III. POLITICIANS

III.1 Office-seeking politicians

*PT Chapters 3.1-3.4

- Meltzer, A., and S. Richard (1981): “A rational theory of the size of government,” *Journal of Political Economy* 89, 914-27.
- Lindbeck, A., and J.W. Weibull (1987): “Balanced-budget redistribution as the outcome of political competition,” *Public Choice* 52, 273-297.
- **Boustan, L., F. Ferreira, H. Winkler, and E.M. Zolt (2013): “The Effect of Rising Income Inequality On Taxation and Public Expenditures: Evidence From U.S. Municipalities and School Districts, 1970-2000,” *The Review of Economics and Statistics*, 95(4): 1291-1302.
- *Strömberg, D. (2008): “How the Electoral College Influences Campaigns and Policy: The Probability of Being Florida,” *American Economic Review* 98(3), 769–807.

III.2 Partisan politicians

*PT Chapters 5.1-5.3

- Merlo (2006): “Whither Political Economy? Theories, Facts and Issues,” Section 3.
- *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.
- Ansolabehere S, J.M. Snyder, and C. Stewart (2001): “Candidate Positions in Congressional Elections,” *American Journal of Political Science* 45.
- **Gerber, E.R., J.B. Lewis (2004): “Beyond the Median: Voter Preferences, District Heterogeneity, and Political Representation,” *Journal of Political Economy* 112(6), 1364-83.
- *Lee, D., E. Moretti, and M. Butler (2004): “Do Voters Affect or Elect Policies? Evidence from the U.S. House,” *Quarterly Journal of Economics* 119(3), 807-859.
- **Washington, E. (2008): “Female Socialization: How Daughters Affect Their Legislator Fathers’ Voting on Women’s Issues,” *American Economic Review* 98(1), 311–332.
- Diermeier, D., M. Keane, and A. Merlo (2005): “A Political Economy Model of Congressional Careers,” *American Economic Review* 95(1), 347-373.

III.3 Political agency

Besley, T. (2007): *Principled Agents?* Chapter 3.

- *Maskin, E., and J. Tirole (2004): “The politician and the Judge: Accountability in Government,” *American Economic Review* 94(4), 1034-1054.
- Besley, T., and A. Case (1995): “Does Electoral Accountability Affect Economic Policy Choices? Evidence from Gubernatorial Term Limits,” *Quarterly Journal of Economics* 110(3), 769-798.
- **List, J.A., and D.M. Sturm (2006): “How Elections Matter: Theory and Evidence from Environmental Policy,” *Quarterly Journal of Economics* 121(4), 1249-81.
- Besley, T., and A. Prat (2006): “Handcuffs for the Grabbing Hand? Media Capture and Government Accountability,” *American Economic Review* 96(3), 720-736.

IV. BUREAUCRATS

IV.1 Bureaucratic performance

- Banerjee, A.V. (1997): “A theory of misgovernance,” *Quarterly Journal of Economics* 112(4), 1289-1332.
- *Prendergast, C. (2007): “The Motivation and Bias of Bureaucrats,” *American Economic Review* 97(1), 180-196.
- Alesina, A., and G. Tabellini (2007): “Bureaucrats or Politicians? Part I: A single policy task,” *American Economic Review* 97(1), 169-179.
- Bandiera, O., A. Prat, and T. Valletti (2009): “Active and Passive Waste in Government Spending: Evidence from a Policy Experiment,” *American Economic Review* 99(4), 1278-1308.
- Di Tella, R., and E. Schargrodsky (2003): “The Role of Wages and Auditing during a Crackdown on Corruption in the City of Buenos Aires,” *Journal of Law and Economics* 46(1), 269-292.
- **Dal Bo, E., F. Finan, and M.A. Rossi (2013): “Strengthening State Capabilities: The Role of Financial Incentives in the Call to Public Service,” *Quarterly Journal of Economics* 128(3), 1169-1218.
- Neggers, Y. (2018): “Enfranchising Your Own? Experimental Evidence on Bureaucrat Diversity and Election Bias in India,” *American Economic Review* 108(6), 1288-1321.

IV.2 Politicians and bureaucrats

- *Fox, J., and S.V. Jordan (2011): “Delegation and Accountability,” *Journal of Politics* 73(3), 831-844.
- Ting, M. (2003): “A Strategic Theory of Bureaucratic Redundancy,” *American Journal of Political Science* 47(2), 274-292.
- Gailmard, S., and J.W. Patty (2007): “Slackers and Zealots: Civil Service, Policy Discretion, and Bureaucratic Expertise,” *American Journal of Political Science* 51(4), 873-889.
- **Makowsky, M.D., and T. Stratmann (2009): “Political Economy at Any Speed: What Determines Traffic Citations?” *American Economic Review* 99(1), 509-527.
- Iyer, L., and Mani, A. (2012): “Traveling Agents: Political Change and Bureaucratic Turnover in India,” *Review of Economics and Statistics* 94 (3), 723-39.
- Ujhelyi, G., and E. Calvo (2013): “Political Screening: Theory and Evidence from the Argentine Public Sector,” working paper.

IV.3 Bureaucratic institutions

*Ujhelyi, G. (2014): "Civil Service Reform," *Journal of Public Economics* 118, 15-25.

Rauch, J.E. (1995): "Bureaucracy, Infrastructure, and Economic Growth: Evidence from US Cities During the Progressive Era," *American Economic Review* 85(4), 968-979.

Folke, O., S. Hirano, and J. M. Snyder, Jr. (2011): "Patronage and Elections in US States," *American Political Science Review* 105(3), 567-585.

*Ujhelyi, G. (2014): "Civil Service Rules and Policy Choices: Evidence from US State Governments," *American Economic Journal: Economic Policy* 6(2), 338-380.

Bostashvili, D., and G. Ujhelyi (2018): "Political Budget Cycles and the Civil Service: Evidence from Highway Spending in US States," working paper.

Huber, J., and M. Ting (2016): "Civil Service and Patronage in Bureaucracies," working paper.

Ornaghi, A. (2016): "Civil Service Reforms: Evidence from US Police Departments," working paper.

Bai, Y., and R. Jia (2016): "Elite Recruitment and Political Stability: The Impact of the Abolition of China's Civil Service Exam," *Econometrica* 84(2), 677-733.

Forand, J.G., and G. Ujhelyi (2018): "Don't Hatch The Messenger? On the Desirability of Restricting the Political Activity of Bureaucrats," working paper.

V. INTEREST GROUPS

V.1 Information

*GH Chapters 4.1, 5.1

**Bertrand, M., M. Bombardini, and F. Trebbi (2014): "Is It Whom You Know or What You Know? An Empirical Assessment of the Lobbying Process," *American Economic Review* 104(12), 3885-3920.

V.2 Campaign contributions

*GH Chapters 7, 8

Mueller (2003): *Public Choice III*, Chapter 15

Bernheim, B. D., and M.D: Whinston, Michael D. (1986): "Menu Auctions, Resource Allocation, and Economic Influence," *Quarterly Journal of Economics* 101(1), 1-31.

*Grossman, G.M., and E. Helpman (1994): "Protection for Sale," *American Economic Review* 84(4), 833-850.

Goldberg, P.K., and G. Maggi (1999): "Protection for Sale: An Empirical Investigation," *American Economic Review* 89(5), 1135-1155.

*Fredriksson, P.G., and J. Svensson (2003): "Political Instability, Corruption and Policy Formation: The Case of Environmental Policy," *Journal of Public Economics* 87(7-8), 1383-1405.

Bombardini, M., and F. Trebbi (2011): "Votes or Money? Theory and Evidence from the US Congress," *Journal of Public Economics* 95(7-8), 587-611.

V.3 Campaign finance regulation

*Ansolabehere, S., J.M. de Figueiredo, and J.M. Snyder Jr. (2003): "Why is there so little money in US politics?" *The Journal of Economic Perspectives* 17(1), 105-130.

*Coate, S. (2004): "Pareto-Improving Campaign Finance Policy," *American Economic Review* 94(3), 628-655.

Prat, A. (2002): "Campaign Advertising and Voter Welfare," *Review of Economic Studies* 69, 999-1017.

*Ujhelyi, G. (2009): "Campaign Finance Regulation with Competing Interest Groups," *Journal of Public Economics* 93(3-4), 373-391.

V.4 Corruption

Mauro, P. (1995): "Corruption and Growth," *Quarterly Journal of Economics* 110(3), 681-712.

Ades, A., and R. Di Tella (1999): "Rents, Competition, and Corruption," *American Economic Review* 89(4), 982-993.

*Treisman, D. (2000): "The causes of corruption: a cross-national study," *Journal of Public Economics* 76, 399-457.

Donchev, D., and G. Ujhelyi (2014): "What Do Corruption Indices Measure?" *Economics & Politics* 26(2), 309-331.

Glaeser, E.L., and R.E. Saks (2006): "Corruption in America," *Journal of Public Economics* 90(6-7), 1053-1072.

Gorodnichenko, Y., and K. Sabirianova Peter (2007): "Public sector pay and corruption: Measuring bribery from micro data," *Journal of Public Economics* 91, 963-991.

*Fisman, R., and E. Miguel (2007): "Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets", *Journal of Political Economy* 115(6), 1020-1048.

*Ferraz, C., and F. Finan (2008): "Exposing corrupt politicians: The effects of Brazil's publicly released audits on electoral outcomes," *Quarterly Journal of Economics* 123(2), 747-793.