

POLITICAL ECONOMICS

Course Syllabus, Spring 2009

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Course Outline: In part A of the course, we will apply economic theory and methodology to the study of non-market decision-making (typically political decision-making). As economists, we assume that economic agents (when they are consumers or producers) are acting on the basis of self interest. What happens when we assume that politicians, voters and bureaucrats are self interest too? We simply achieve a much better understanding of real-world policy. In this part we will examine issues related to the choice and the consequences of the voting rule, majority rule, two-party competition, bureaucracy and political accountability. In part B, we will try to explain the formation of economic policy in modern democracies, and answer the question of what determines the type and structure of various government policies. By the end of the course we will be able to answer the following questions: (i) what determines the size of government redistributive programs, (ii) the structure of taxation, (iii) the fiscal and monetary stance of the government during the course of the business cycle, (iv) why and when governments choose to initiate a socially desirable reform, (v) what determines the size of an economic union.

Familiarity with algebra and a solid background in economic theory are assumed as prerequisites.

Basic Textbooks:

- Dennis Mueller. *Public Choice III*. Cambridge University Press, 2003. (*MUE*)
- Dennis C. Mueller, *Perspectives on Public Choice*, Cambridge University Press, 1997. (*MUE2*)
- Arye Hillman. *Public Finance and Public Policy. Responsibilities and Limitations*. Cambridge University Press, 2003. (*HIL*)
- Persson T. and G. Tabellini, (2002), *Political Economics: Explaining Economic Policy*, The MIT Press. (*PT*)
- Drazen, A., (2000), *Political Economy in Macroeconomics*, Princeton University Press. (*D*)

Grading: Final Exam 70%. Written assignment and presentation 30%.

Course Outline

PART A

1. Reasons for Collective Choice

MUE, chapter 2.

HIL, chapter 2.

2. The Choice of Voting Rule

MUE, chapter 4.

HIL, chapter 3.

3. Majority Rule

MUE, chapter 5

4. Two-Party Competition

MUE, chapter 11.

Downs, A., (1957) *An Economic Theory of Democracy*. New York: Harper.

PT, chapter 3.

5. Agency. Political Accountability

Persson, T., Tabellini, G., (2002). *Political Economics: Explaining Economic Policy*,
The MIT Press, chapter 3

Barro, R., (1973). "The Control of Politicians: an Economic Model." *Public Choice*
14, 19-42

Ferejohn, J., (1986). "Incumbent Performance and Electoral Control". *Public Choice*
30: 5-25.

6. Bureaucracy

MUE, chapter. 16

Niskanen, W., (1991). *Bureaucracy and Representative Government*. Chicago:
Aldine- Atherton.

Wyckoff, G., (1990). "Bureaucracy, Inefficiency, and Time." *Public Choice* 67: 169-
179

PART B

1. Redistribution

D, chapters 8

PT, chapters 6

Meltzer A. and S. Richard, (1981), "A rational theory of the size of government", *Journal of Political Economy* 89, 914- 927.

Tabellini, G., (1991), " The politics of the intragenerational redistribution", *Journal of Political Economy* 99, 335- 357.

Weingast, B., K. Shepsle and C. Johnsen, (1981), "The political economy of benefits and costs: a neoclassical approach to redistributive politics", *Journal of Political Economy* 89, 642- 664.

2. Capital Taxation

PT, chapter 12

Fischer, S., (1980), "Dynamic inconsistency, cooperation, and the benevolent dissembling government", *Journal of Economic Dynamics and Control* 2, 93- 107

Razin, A., and E. Sadka (1991), "International fiscal policy coordination and competition:an exmposition", *NBER Working Paper No. 3779*.

Wilson, J., (1987), "Trade, capital mobility and competition", *Journal of Political Economy* 95, 835- 856.

3. Inaction and Delay

D, chapter 10

Alesina, A. and A. Drazen, (1991), "Why are stabilizations delayed?", *American Economic Review* 81, 1170- 1188.

Cukierman, A. and M. Tommasi, (1998), "When does it Nixon to go to china?", *American Economic Review* 88, 180-197.

Fernandez, R. and D. Rodrik, (1991), "Resistance to reform: status quo bias in the presence of individual uncertainty", *American Economic Review* 81, 1146- 1155.

4. Electoral Cycles

D, chapter 7

PT, chapter 16

- Alesina A., (1987), "Macroeconomic policy in a two- party system as a repeated game", *Quarterly Journal of Economics* 102, 651- 678.
- Hibbs, D. A., (1977), "Political parties and macroeconomic policy", *American Political Science Review* 71, 1467- 1478.
- Hibbs, D. A., (1992), "Partisan theory after fifteen years", *European Journal of Political Economy* 8, 361- 373.
- Nordhaus, W., (1975), "The political business cycle", *Review of Economic Studies* 42, 169- 190.

5. Economic Integration and the Number of Nations

D, chapter 14

Alesina, A. and E. Spolaore, (2003), *The Size of Nations*, MIT Press.

6. Economic Origins of Dictatorship

- Acemoglu, D., Robison, J., (2005). *Economic Origins of Dictatorship and Democracy*. Cambridge University Press, chapter 5.
- Acemoglu, D., Robison, J., (2000). "Why Did the West Extend the Franchise? Growth, Inequality and Democracy in Historical Perspective" *Quarterly Journal of Economics* , CXV, 1167-1199.
- Acemoglu, D., Robison, J., (2000) "Democratization or Repression?" *European Economic Review* , 44, 683-693.