

Topics of Positive Political Economy

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Syllabus for Fall 2013

1 Introduction

This course offers an introduction to the literature of positive political economy. By “positive political economy” we emphasize not only the interplay between economics and politics, but also the use of theoretical models in analyzing the formation, persistence, and evolution of institutions. The goal of this course is provide a wrap-up of the recent theoretical perspectives about economic and political governance and help students develop their own projects. A background in game theory (equivalent to the graduate microeconomics II at NSD) is assumed. The requirements include class presentations and a final paper.

The readings cover six theoretical topics: representation and accountability; interest group; bureaucracy; decentralization; corruption; and institutional change. We will devote two weeks to each topic, with the first week being a lecture on the theoretical foundations and the second week reserved for student presentations. Students are supposed to do all the readings under the category of “study”. The papers under the category of “suggest” are optional but recommended for extensive reading. There is no assigned textbook for this course. Those who are interested in a more complete survey of the literature may refer to *Political Economics: Explaining Economic Policy* by Torsten Persson and Guido Tabellini (Chinese version was published by the Renmin University Press in 2007).

2 Requirements and Course Grading

Participation (20 %): Attendance is mandatory. Absence without notification will be penalized for up to 20% of the final grade.

Class Presentation (40 %): Students are responsible for presenting the two papers for the following weeks: 3, 5, 7, 9, 11, 13.

Term Paper (40 %): A final paper (15 pages, double space) is due the end of the semester. Students have two options: a literature review about one of the six topics covered in the course; or an original research paper, which may not be directly related to the six topics but should broadly pertain to political economy. The topic of the final paper should be made with consultation of the instructor by week 7.

3 Course Schedule

Week 1, Introduction

Study

Hamilton, Alexander. 1787. Federalist Papers. No. 7. “Concerning Dangers from Dissensions Between the States.”

Coase, Ronald. 1960. “The Problem of Social Cost.” *Journal of Law and Economics*. 3: 1-44.

Przeworski, Adam. 1991. *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America*. chapter 1. Cambridge University Press.

Suggest

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

Barzel, Yoram. 2002. *A Theory of The State*. Chapter 2. Cambridge University Press.

Myerson, Roger. 2008. “The Autocrat’s Credibility Problem and Foundations of the Constitutional State.” *The American Political Science Review*. 102(01): 31-43.

Week 2, Representation and Accountability (I)

Study

Manin, Bernard, Przeworski, Adam and Susan C., Stokes. 1999. “Elections and Representation.” in Adam Przeworski, Susan, C., Stokes, and Bernard Manin. Eds. *Democracy, Accountability, and Representation*. Cambridge University Press.

Barro, Robert. 1973. “The Control of Politicians: An Economic Model.” *Public Choice*. 14: 19-42.

Maskin, Eric, and Jean Tirole. 2004. “The Politician and the Judge: Accountability in Government.” *The American Economic Review*. 94(4): 1034-1054.

Suggest

Ferejohn, John. 1986. “Incumbent Performance and Electoral Control.” *Public Choice*. 50: 5-25.

Franklin, Benjamin. 1787. “Opposition to Executive Salaries.”

Fearon, James. 1999. “Electoral Accountability and the Control of Politicians: Selecting Good Types versus Sanctioning Poor Performance.” in Adam Przeworski, Susan, C., Stokes, and Bernard Manin. Eds. *Democracy, Accountability, and Representation*. Cambridge University Press.

Gordon, Sanford C., and Gregory A. Huber. 2007. “The Effect of Electoral Competitiveness on Incumbent Behavior.” *Quarterly Journal of Political Science*. 2: 107-138.

Tsai, Lily L. 2007. “Solidary Groups, Informal Accountability, and Local Public Goods Provision in Rural China.” *The American Political Science Review*. 101(2): 355-372.

Martinez-Bravo, Monica, Padró i Miquel, Gerard, Qian, Nancy, and Yao Yang. 2011. “Do Local Elections in Non-Democracies Increase Accountability? Evidence from Rural China.” NBER Working Paper.

McCormick, John P. 2001. “Machiavellian Democracy: Controlling Elites with Ferocious Populism.” *The American Political Science Review*. 95(2): 297-313.

Persson, Torsten, Roland, Gérard, and Guido Tabellini. 1997. "Separation of Powers and Political Accountability." *The Quarterly Journal of Economics*. 112(4): 1163-1202.

Fox, Justin, and Kenneth Shotts. 2009. "Delegates or Trustees? A Theory of Political Accountability." *The Journal of Politics*. 71(4): 1225-1237.

Bidner, Chris and Patrick Francois. 2013. "The Emergence of Political Accountability." *The Quarterly Journal of Economics*, forthcoming.

Week 3, Representation and Accountability (II)

Student presentation

Besley, Timothy. 2004. "Paying Politicians: Theory and Evidence." *Journal of the European Economic Association*. 2(2-3): 193-215.

Lockwood, Ben, and Francesco Porcelli. 2013. "Incentive Schemes for Local Government: Theory and Evidence from Comprehensive Performance Assessment in England." *American Economic Journal: Policy*. forthcoming.

Week 4, Interest Groups (I)

Study

Madison, James, Hamilton, Alexander, and John Jay. *Federalist Papers*. No. 10.

Becker, Gary S., 1983. "A Theory of Competition Among Pressure Groups for Political Influence." *The Quarterly Journal of Economics*. 98(3): 371-400.

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

Suggest

Stigler, George. 1971. "The Theory of Economic Regulation." *Bell Journal of Economic Management and Science*. 2: 3-21.

Potters, Jan, and Randolph Sloof. 1996. "Interest Groups: A Survey of Empirical Models that Try to Assess Their Influence." *European Journal of Political Economy*. 12(3): 403-442.

Ansola-behere, Stephen, de Figueiredo, John M., and James M., Snyder. 2003. "Why Is There so Little Money in U.S. Politics?" *The Journal of Economic Perspectives*. 17(1): 105-130.

Kroszner, Randall S. and Thomas Stratmann. 1998. "Interest-Group Competition and the Organization of Congress: Theory and Evidence from Financial Services' Political Action Committees." *The American Economic Review*. 88(5): 1163-1187.

Campos, Nauro F., and Francesco Giovannoni. 2007. "Lobbying, Corruption and Political Influence." *Public Choice*. 131(1/2): 1-21.

Coate, Stephen, and Stephen Morris. 1995. "On the Form of Transfers to Special Interests." *Journal of Political Economy*. 103(6): 1210-1235.

Week 5, Interest groups (II)

Student presentation

Gordon, Sanford, and Catherine Hafer. 2007. "Corporate Influence and the Regulatory Mandate." *The Journal of Politics*. 69(2): 300-319.

Dal Bó, Ernesto, Dal Bó, Pedro, and Rafael Di Tella. 2006. "“Plata O Plomo?”: Bribe and Punishment in a Theory of Political Influence." *The American Political Science Review*. 100(1): 41-53.

Week 6, Bureaucracy (I)

Study

Wilson, James. 1989. *Bureaucracy: What Government Agencies Do And Why They Do It*. Chapter 7-9. Basic Books.

Dixit, Avinash. 2002. "Incentives and Organizations in the Public Sector: An Interpretative Review." *The Journal of Human Resources*. 37(4): 696-727.

Aghion, Philippe, and Jean Tirole. 1997. "Formal and Real Authority in Organizations." *Journal of Political Economy*. 105(1): 1-29.

Suggest

Weber, Max. 1919. "Politics as a Vocation."

Weingast, Barry, and Mark J. Moran. 1983. "Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission." *Journal of Political Economy*. 91(5): 765-800.

Bendor, Jonathan, Taylor, Serge, and Roland Van Gaalen. 1985. "Bureaucratic Expertise versus Legislative Authority: A Model of Deception and Monitoring in Budgeting." *The American Political Science Review*. 79(4): 1041-1060.

Moe, Terry M. 2006. "Political Control and the Power of the Agent." *Journal of Law, Economics and Organization*. 22(1): 1-29.

Novaes, Walter, and Luigi Zingales. 2004. "Bureaucracy as a Mechanism to Generate Information." *The RAND Journal of Economics*. 35(2): 245-259.

Bachman, David. 1991. *Bureaucracy, Economy, and Leadership in China: The Institutional Origins of the Great Leap Forward*. Chapter 7-8. Princeton University Press.

Egorov, Georgy, and Konstantin Sonin. 2011. "Dictators and Their Viziers: Endogenizing The Loyalty-Competence Trade-off." *Journal of the European Economic Association*. 9(5): 903-930.

Alchian, Armen A., and Harold Demsetz. 1972. "Production, Information Costs, and Economic Organization." *The American Economic Review*. 62(5): 777-795.

Hart, Oliver, and John Moore. 2005. "On the Design of Hierarchies: Coordination versus Specialization." *Journal of Political Economy*. 113(4): 675-702.

Ting, Michael. 2003. "A Strategic Theory of Bureaucratic Redundancy." *American Journal of Political Science*. 47(2): 274-292.

Week 7, Bureaucracy (II)

Student presentation

Prendergast, Canice. 2003. "The Limits of Bureaucratic Efficiency." *Journal of Political Economy*. 111(5): 929-958.

Iyer, Lakshmi, and Anandi Mani. 2012. "Traveling Agents: Political Change and Bureaucratic Turnover in India." *The Review of Economics and Statistics*. 94(3): 723-739.

Week 8, Decentralization (I)

Study

Xu, Chenggang. 2011. "The Fundamental Institutions of China's Reforms and Development." *Journal of Economic Literature*. 49(4): 1076-1151.

Epple, Dennis, and Allan Zelenitz. 1981. "The Implications of Competition Among Jurisdictions: Does Tiebout Need Politics?" *Journal of Political Economy*. 89(6): 1197-1217.

Myerson, Roger. 2006. "Federalism and Incentives for Success of Democracy." *Quarterly Journal of Political Science*. 1: 3-23.

Suggest

Oates, Wallace E. 1999. "An Essay on Fiscal Federalism." *Journal of Economic Literature*. 37(3): 1120-1149.

De Figueiredo, Rui J. P., and Barry Weingast. 2005. "Self-Enforcing Federalism." *Journal of Law, Economics and Organization*. 21(1): 103-135.

Perroni, Carlo, and Kimberley A. Scharf. 2001. "Tiebout with Politics: Capital Tax Competition and Constitutional Choices." *The Review of Economic Studies*. 68(1): 133-154.

Oi, Jean C. 1992. "Fiscal Reform and the Economic Foundations of Local State Corporatism in China." *World Politics*. 45(1): 99-126.

Qian, Yingyi, and Barry R. Weingast. 1997. "Federalism as a Commitment to Preserving Market Incentives." *The Journal of Economic Perspectives*. 11(4): 83-92.

Caldeira, Emilie. 2012. "Yardstick competition in a federation: Theory and evidence from China." *China Economic Review*. 23(4): 878-897.

Week 9, Decentralization (II)

Student presentation

Bardhan, Pranab, and Dilip Mookherjee. 2005. "Decentralizing Antipoverty Program Delivery in Developing Countries." *Journal of Public Economics*. 89(4): 675-704.

Qian, Yingyi, Roland, Gérard, and Chenggang Xu. 2006. "Coordination and Experimentation in M-Form and U-Form Organizations." *Journal of Political Economy*. 114(2): 366-402.

Week 10, Corruption (I)

Study

Svensson, Jakob. 2005. "Eight Questions about Corruption." *The Journal of Economic Perspectives*. 19(3): 19-42.

Shleifer, Andrei, and Robert Vishny. 1993. "Corruption." *The Quarterly Journal of Economics*. 108(3): 599-617.

Banerjee, Abhijit V. 1997. "A Theory of Misgovernance." *The Quarterly Journal of Economics*. 112(4): 1289-1332.

Suggest

Wallis, John, Fishback, Price, and Shawn E. Kantor. 2006. "Politics, Relief, and Reform. Roosevelt's Efforts to Control Corruption and Political Manipulation during the New Deal." in Edward L. Glaeser and Claudia Goldin. Eds. *Corruption and Reform: Lessons from America's Economic History*. University of Chicago Press.

Johnson, Simon, Kaufmann, Daniel, and Andrei Shleifer. 1997. "The Unofficial Economy in Transition." *Brookings Papers on Economic Activity*. 28(2): 159-240.

Kunicová, Jana, and Susan Rose-Ackerman. 2005. "Electoral Rules and Constitutional Structures as Constraints on Corruption." *British Journal of Political Science*. 35(4): 573-606.

Ferraz, Claudio, and Frederico Finan. 2011. "Electoral Accountability and Corruption in Local Governments: Evidence from Audit Reports." *The American Economic Review*. 101(4): 1274-1311.

Week 11, Corruption (II)

Student presentation

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

Choi, Jay Pil, and Marcel Thum. 2005. "Corruption and the Shadow Economy." *International Economic Review*. 46(3): 817-836.

Week 12, Institutional Change (I)

Study

Acemoglu, Daron, and James A. Robinson. 2000. "Why Did The West Extend The Franchise? Democracy, Inequality and Growth in Historical Perspective." *The Quarterly Journal of Economics*. 115(4): 1167-1199.

Lizzeri, Alessandro, and Persico Nicola. 2004. "Why Did elites Extend the Suffrage? Democracy and the Scope of Government, With an Application to Britain's "Age of Reform." " *The Quarterly Journal of Economics* 119(2): 705-63.

Greif, Avner, and Guido Tabellini. 2012. "The Clan and the City: Sustaining Cooperation in China and Europe." Working Paper. Stanford University.

Suggest

Przeworski, Adam. 2009. "Granted or Conquered? A History of Franchise Extensions." *British Journal of Political Science*. 39(2): 291-321.

Llavador, Humberto, and Robert J. Oxoby. 2006. "Partisan Competition, Growth, and the Franchise." *The Quarterly Journal of Economics*. 120(3): 1155-89.

Stasavage, David. 2013. "Was Weber Right? The Role of Urban Autonomy in Europe's Rise." Working Paper, New York University.

Week 13, Institutional Change (II)

Student presentation

Acemoglu, Daron. 2008. "Oligarchic Versus Democratic Societies." *Journal of the European Economic Association*. 6(1): 1-44.

Huang, Fali. 2012. "The Coevolution Of Economic And Political Development From Monarchy To Democracy." *International Economic Review*. 53(4): 1341-1368.

Week 14, Where Do We Stand?

Study

Dixit, Avinash. 2009. "Governance Institutions and Economic Activity." *The American Economic Review*. 99(1): 5-24.

Acemoglu, Daron, and James Robinson. 2013. "Economics versus Politics: Pitfalls of Policy Advice." *Journal of Economic Perspective*, forthcoming.