

## Syllabus

[cmcd.economia@fgv.br]

**Course: Political Economy**

**Professor:**

## 2025 SECOND SEMESTER

### PROGRAM

This course provides a comprehensive overview of the empirical and theoretical literature in political economy. We examine how various institutional arrangements and collective decision-making processes affect economic and political outcomes, such as redistribution, corruption, political participation, polarization, development, and growth. Our aim is to acquaint students with the current political economy literature equipping them with the necessary skills to employ empirical and theoretical methods in addressing questions in economics and politics.

### BIBLIOGRAPHY

Class discussions will rely primarily on papers, but the following textbooks may be useful:

- Besley, T. 2006. *Principled Agents?* Oxford University Press.
- Grossman, G. M. and E. Helpman. 2001. *Special Interest Politics*. MIT Press.
- Merlo, A. 2019. *Political Economy and Policy Analysis*. Routledge.
- Persson T. and G. Tabellini. 2000. *Political Economics*. MIT Press.
- Osborne, M. J. 2024. Models in Political Economy. (Draft: <https://www.economics.utoronto.ca/osborne/mpe/index.html>)

We will discuss the following topics in class (*tentative*).

#### 1. Introduction

- Merlo, A. 2005. "Whither Political Economy? Theory, Facts and Issues." in Richard Blundell, Whitney Newey and Torsten Persson (eds.), *Advances in Economics and Econometrics, Theory and Applications: Ninth World Congress of the Econometric Society*, Vol. I, pp. 381-421, Cambridge: Cambridge University Press.
- Acemoglu, D. 2010. "Theory, General Equilibrium, Political Economy and Empirics in Development Economics." *Journal of Economic Perspectives*, 24(3), 17-32.

#### 2. Social Choice and Voting Theory

- Arrow, K. J. 1951. *Social Choice and Individual Values* (2<sup>nd</sup> ed.). New York: Wiley.
- Geanakoplos, J. 2005. "Three Brief Proofs of Arrow's Impossibility Theorem." *Economic Theory*, 26: 211-215.
- Gibbard, A. 1973. "Manipulation of Voting Schemes: A General Result." *Econometrica*, 41(4): 587-601.
- Maskin, E. and A. Sen. 2014. *The Arrow Impossibility Theorem (Kenneth J. Arrow Lecture Series)*. New York: Columbia University Press.
- May, K. O. 1952. "A Set of Independent Necessary and Sufficient Conditions for Simple Majority Decisions." *Econometrica*, 20(4): 680-684.

- McLean, I. 1990. "The Borda and Condorcet Principles: Three Medieval Applications." *Social Choice and Welfare*, 7:99-108.
- Reny, P. 2001. "Arrow's Theorem and the Gibbard-Satterthwaite Theorem: A Unified Approach." *Economic Letters*, 70(1): 99-105.
- Satterthwaite, M. A. 1975 "Strategy-proofness and Arrow's Conditions: Existence and Correspondence Theorems for Voting Procedures and Social Welfare Functions." *Journal of Economic Theory*, 10(2): 187-217.

### 3. Models of Electoral Competition

- Black, D. 1948. "On the Rationale of Group Decision-making." *Journal of Political Economy*, 56(1): 23-34.
- Black, D. 1991. "Arrow's Work and the Normative Theory of Committees." *Journal of Theoretical Politics* 3(3): 259-276.
- Dixit, A. and J. Londregan. 1996. "The Determinants of Success of Special Interests in Redistributive Politics." *Journal of Politics*, 58(4): 1132-1155.
- Downs, A. 1957. *An Economic Theory of Democracy*. New York: Harper.
- Gans, J. S. and M. Smart. 1996. "Majority Voting with Single-crossing Preferences." *Journal of Public Economics*, 59(2): 219-237.
- Grofman, B. 2004. "Downs and Two-Party Convergence." *Annual Review of Political Science*, 7: 25-46.
- Hotelling, H. 1929. "Stability in Competition." *Economic Journal*, 39(153): 41-57.
- McLean, I., A. McMillan and B. L. Monroe. 1995. "Duncan Black and Lewis Carroll." *Journal of Theoretical Politics*, 7(2): 107-123.
- Merlo, A. 2019. *Political Economy and Policy Analysis*. Routledge. Chapter 5: "Electoral Competition", p. 71-87.
- Persson T. and G. Tabellini. 2000. *Political Economics*. MIT Press. Chapter 3: "Electoral Competition", p.47-68.

## 4. Redistribution and Political Participation

### 4.1 Redistribution

- Alesina, A. and D. Rodrik. 1994. "Distributive Politics and Economic Growth." *Quarterly Journal of Economics*, 109(2): 465-490.
- Bursztyn, L. 2016. "Poverty and the Political Economy of Public Education Spending: Evidence from Brazil." *Journal of the European Economic Association*, 14(5): 1101-1128.
- Campante, F. 2011. "Redistribution in a Model of Voting and Campaign Contributions." *Journal of Public Economics*, 95(7-8): 646-56.
- Cascio, E. and E. Washington. 2014. "Valuing the Vote: The Redistribution of Voting Rights and State Funds Following the Voting Rights Act of 1965." *Quarterly Journal of Economics*, 129(1): 379-433.
- Fujiwara, T. 2015. "Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil." *Econometrica*, 83(2): 423-64.
- Hinnerich, B. and P. Pettersson-Lidbom. 2014. "Democracy, Redistribution and Political Participation: Evidence from Sweden 1919-1938." *Econometrica*, 82(3): 961-993.
- Husted, T. A and L. W. Kenny. 1997. "The Effect of the Expansion of the Voting Franchise on the Size of Government." *Journal of Political Economy*, 105(1): 54-82.
- Meltzer, A. and S. Richard. 1981. "A Rational Theory of the Size of Government." *Journal of Political Economy*, 89: 914-27.

### 4.2 Political Participation

- Bursztyn, L., G. Egorov and S. Fiorin. 2020. "From Extreme to Mainstream: The Erosion of Social Norms." *American Economic Review*, 110(11): 3522-48.

- Bursztyn, L.D. Cantoni, P. Funk, F. Schönenberger and N. Yuchtman. 2024. "Identifying the Effect of Election Closeness on Voter Turnout: Evidence from Swiss Referenda." *Journal of the European Economic Association*, 114(2): 876-914.
- Chong, A., A. L. De La O, D. Karlan and L. Wantchekon. 2015. "Does Corruption Information Inspire the Fight or Quash the Hope? A Field Experiment in Mexico on Voter Turnout, Choice, and Party Identification." *Journal of Politics*, 77(1): 55-71.
- De La O, A. L. 2013. Do Conditional Cash Transfers Affect Electoral Behavior? Evidence from a Randomized Experiment in Mexico." *American Journal of Political Science*, 57(1): 1-14.
- DellaVigna, S., J. A. List, U. Malmendier and G. Rao. 2017. "Voting to Tell Others." *Review of Economic Studies*, 84: 143-181.
- Funk, P. 2010. "Social Incentives and Voter Turnout: Evidence from the Swiss Mail Ballot System." *Journal of the European Economic Association*, 8(5): 1077-1103.
- Gerber, A., D. Green and C. Larimer. 2008. "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment." *American Political Science Review*, 102(1): 33-48.
- Levine, D. K. and T. P. Palfrey. 2007. "The Paradox of Voter Participation? A Laboratory Study." *American Political Science Review*, 101(1): 143-148.
- Palfrey, T. P. and H. Rosenthal. 1985. "Voter Participation and Strategic Uncertainty." *American Political Science Review*, 79(March): 62-78.

## 5. Democracy, Checks and Balances, and Legislative Bargaining

- Acemoglu, D., S. Naidu, P. Restrepo and J. A. Robinson. 2019. "Democracy Does Cause Growth." *Journal of Political Economy*, 127(1): 47-100.
- Acemoglu, D., N. Ajzenman, C. G. Aksoy, M. Fiszbein and C. Molina. 2024a. "(Successful) Democracy Breed Their Own Support." *Review of Economic Studies*, forthcoming.
- Acemoglu, D., C. G. Aksoy, C. Baysan, C. Molina and G. Zeki. 2024b. "Misperceptions and Demand for Democracy under Authoritarianism." Working Paper.
- Alesina, A. and N. Fuchs-Schündeln. 2007. "Good-Bye Lenin (or Not?): The Effect of Communism on People's Preferences." *American Economic Review*, 97(4): 1507-1528.
- Baron, D. P. and J. A. Ferejohn. 1989. "Bargaining in Legislatures." *American Political Science Review*, 83(4): 1181-1206.
- Dal Bo, E. 2007. "Bribing Voters." *American Journal of Political Science*, 51(4): 789-803.
- Eraslan, H. and K. Evdokimov. 2019. "Legislative and Multilateral Bargaining." *Annual Review of Economics*, 11: 443-472.
- Eraslan, H., K. Evdokimov and J. Zápal. 2022. "Dynamic Legislative Bargaining.", 151-71, in "Current Research and Future Directions in Bargaining", Kyle Hyndman and Emin Karagözoglu (eds.), Palgrave Macmillan.
- Ferejohn, J. A. 1986. "Incumbent Performance and Electoral Control." *Public Choice*, 50(1-3): 5-25.
- Nakaguma, M. Y. 2015. "Choosing the Form of Government: Theory and Evidence from Brazil." *Economic Journal*, 125(December): 1986-2023.
- Persson, T., G. Roland and G. Tabellini. 2000. "Comparative Politics and Public Finance." *Journal of Political Economy*, 108(6): 1121-61.

## 6. Information Aggregation and Strategic Voting

- Anderson L. R. and C. A. Holt. 1997. "Information Cascades in the Laboratory." *American Economic Review*, 87(5): 847-862.
- Austen-Smith, D. and J. S. Banks. 1996. "Information Aggregation, Rationality, and the Condorcet Jury Theorem." *American Political Science Review*, 90(1): 34-45.
- Banerjee. 1992. "A Simple Model of Herd Behavior." *Quarterly Journal of Economics*, 107(3): 797-817.
- Battaglini, M., R.B. Morton and T. R. Palfrey. 2010. "The Swing Voter's Curse in the Laboratory." *Review of Economic Studies*, 77(1): 61-89.

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- Feddersen, T. and W. Pesendorfer. 1996. "The Swing Voter's Curse." *American Economic Review*, 86(3): 404-24.
- Feddersen, T. and W. Pesendorfer. 1998. "Convicting the Innocent: The Inferiority of Unanimous Jury Verdicts under Strategic Voting." *American Political Science Review*, 92(1): 23-35.
- Galton, F. "Vox Populi." *Nature*, 75: 450-51.
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- Piketty, T. 1999. "The Information-aggregation Approach to Political Institutions." *European Economic Review*, 43: 791-800.

## 7. Career Concerns and Reputation

- Canes-Wrones, B., M. C. Herron and K. W. Shotts. 2001. "Leadership and Pandering: A Theory of Executive Policymaking." *American Journal of Political Science*, 45(3): 532-550.
- Feltovich, N., R. Harbaugh and T. To. 2002. "Too Cool for School? Signalling and Countersignalling." *RAND Journal of Economics*, 33(4): 630-49.
- Hansen, S., M. McMahon and A. Prat. 2017. "Transparency and Deliberation Within the FOMC: A Computational Linguistics Approach." *Quarterly Journal of Economics*, 133(2): 801-870.
- Majumdar, S. and S. Mukand. 2004. "Policy Gambles." *American Economic Review*, 94(4): 1207-1222.
- Mattozzi, A. and M. Y. Nakaguma. 2023. "Public versus Secret Voting in Committees." *Journal of European Economic Association*, 21(3): 907-940.
- Morris, S. 2001. "Political Correctness." *Journal of Political Economy*, 109(2): 231-65.

## 8. Constitutions and Electoral Rules

- Ames, B. 1995. "Electoral Rules, Constituency Pressures and Pork Barrel: Bases of Voting in Brazilian Congress." *Journal of Politics*, 57(2): 324-43.
- Bordignon, M., T. Nannicini and G. Tabellini. 2016. "Moderating Political Extremism: Single Round vs. Runoff Elections under Plurality Rule." *American Economic Review*, 106(8): 2349-70.
- Caseiro, G. 2024. "Electoral Alliances and Spatial Patterns of Vote", Working Paper.
- Chin, M. 2023. "When Do Politicians Appeal Broadly? The Economic Consequences of Electoral Rules in Brazil." *American Economic Journal: Applied Economics*, 15(3): 183-209.
- Fujiwara, T. 2011. "A Regression Discontinuity Test of Strategic Voting and Duverger's Law." *Quarterly Journal of Political Science*, 6: 197-233.
- Lizzeri, A. and N. Persico. 2001. "The Provision of Public Goods under Alternative Electoral Incentives." *American Economic Review*, 91(1): 225-239.
- McCarty, N., K. T. Poole and H. Rosenthal. 2009. "Does Gerrymandering Cause Polarization?" *American Journal of Political Science*, 53(3): 666-80.
- Myerson, R. 1993. "Incentives to Cultivate Favoured Minorities under Alternative Electoral Systems." *American Political Science Review*, 87: 856-869.
- Persson T. e G. Tabellini. 2000. *Political Economics*. MIT Press. Chapter 8: "Electoral Rules and Electoral Competition", 205-24.

## 9. Campaigns and Electoral Competition

### 9.1 "Close Elections"

- Anagol, S. and T. Fujiwara. 2016. "The Runner-Up Effect." *Journal of Political Economy*, 124(4): 927-991.
- Brollo, F. and U. Troiano. 2016. What Happens when a Woman Wins an Election? Evidence from Close Races in Brazil." *Journal of Development Economics*, 122: 28-45.

- De Magalhães. 2015. "Incumbency Effects in a Comparative Perspective: Evidence from Brazilian Mayoral Elections." *Political Analysis*, 23(1): 113-126.
- Grazier, R., V. Pons and C. Tricaud. 2023. "Coordination and Bandwagon Effects: How Past Rankings Shape the Behavior of Voters and Candidates." *American Economic Journal: Applied Economics*, 15(4): 177-217.
- Lee, D. S. 2008. "Randomized Experiments from Non-random Selection in U.S. House Elections." *Journal of Econometrics*, 142(2): 655-674.

## 9.2 Campaign Financing and Political Connections

- Akhtari, M., D. Moreira and L. Trucco. 2022. "Political Turnover, Bureaucratic Turnover, and the Quality of Public Services." *American Economic Review*, 112(2): 442-493.
- Avis, E., C. Ferraz, F. Finan and C. Varjão. 2022. "Money and Politics: The Effects of Campaign Spending Limits on Political Entry and Competition." *American Economic Journal: Applied Economics*, 14(4): 167-99.
- Boas, T. C., F. D. Hidalgo and N. P. Richardson. 2014. "The Spoils of Victory: Campaign Donations and Government Contracts in Brazil." *Journal of Politics*, 76(2): 415-429.
- Colonnelli, E., M. Prem and E. Teso. 2020. "Patronage and Selection in Public Sector Organizations." *American Economic Review*, 110(10): 3071-99.
- Fisman, R., F. Schulz and V. Vig. 2014. "The Private Returns to Public Office." *Journal of Political Economy*, 122(4): 806-62.

## 9.3 Topics in Electoral Campaigns

- Ajzenman, N., T. Cavalcanti and D. Da Mata. 2023. "More than Words: Leaders' Speech and Risky Behavior during a Pandemic." *American Economic Journal: Economic Policy*, 15(3): 351-371.
- Akhtari, M., D. Moreira and L. Trucco. 2022. "Political Turnover, Bureaucratic Turnover, and the Quality of Public Services." *American Economic Review*, 112(2): 442-493.
- Bruce, R. and R. C. Lima. 2019. "Compulsory Voting and TV News Consumption." *Journal of Development Economics*, 138: 165-179.
- Colonnelli, E., Neto, V. P. and E. Teso. 2024. "Politics at Work." Working Paper.
- Girardi, D. 2020. "Partisan Shocks and Financial Markets: Evidence from Close National Elections." *American Economic Journal: Applied Economics*, 12(4): 224-252.
- Cagé, J., C. LePennec and E. Mougin. 2024. "Firm Donations and Political Rhetoric: Evidence from a National Ban." *American Economic Journal: Economic Policy*, 16(3): 217-256.
- LePennec, C. and V. Pons. 2023. "How Do Campaigns Shape Vote Choice? Multicounty Evidence from 62 Elections and 65 TV Debates." *Quarterly Journal of Economics*, 138(2): 703-767.
- Marx, B, V. Pons and V. Rollet. 2024. "Electoral Turnovers." *Review of Economic Studies*, forthcoming.
- Nakaguma, M. Y. and D. P. Souza. 2024. "Electoral Campaign Attacks: Theory and Evidence." Working Paper.

# 10. Political Institutions

## 10.1 Political Institutions: Bargaining

- Coase, R. 1960. "The Problem of Social Cost." *Journal of Law and Economics*, 3(1): 1-44.
- Farrell, J. 1987. "Information and the Coase Theorem." *Journal of Economic Perspectives*, 1(2): 113-129.
- Nash, J. 1950. "The Bargaining Problem." *Econometrica*, 18(2): 155-162.
- Rubinstein, A. 1982. "Perfect Equilibrium in a Bargaining Model." *Econometrica* 50(1): 97-109.

## 10.2 Political Institutions: Commitment Problem

- Acemoglu, D. 2003. "Why Not a Political Coase Theorem? Social Conflict, Commitment and Politics." *Journal of Comparative Economics*, 31(4): 620-52.
- Acemoglu, D. and J. A. Robinson. 2000. "Why Did the West Extend the Franchise? Democracy, Inequality and Growth in Historical Perspective." *Quarterly Journal of Economics*, 115(4): 1167-99.

- Dimico, A., A. Isopi and O. Olsson. 2017. "Origins of the Sicilian Mafia: The Market for Lemons." *Journal of Economic History*, 77(4): 1083-1115.
- Gambetta, D. 1993. *The Sicilian Mafia: The Business of Private Protection*. Cambridge: Harvard University Press.
- Milgrom, P. R., D. C. North and B. R. Weingast. 1990. "The Role of Institutions in the Revival of the Trade: The Law Merchant, Private Judges, and the Champagne Fairs." *Economics and Politics*, 2(1): 1-23.

## **11. Political Institutions: Long-Run Economic Growth and Development**

- Acemoglu, D. and S. Johnson. 2005. "Unbundling Institutions." *Journal of Political Economy*, 113(5): 949-95.
- Acemoglu, D., S. Johnson and J. Robinson. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation." *American Economic Review*, 91(5), 1369-1401.
- Albouy, D. Y. 2012. "The Colonial Origins of Comparative Development: An Empirical Investigation: Comment." *American Economic Review*, 102(6): 3059-3076.
- Dell, M. 2010. "The Persistent Effects of Peru's Mining Mita." *Econometrica*, 78(6), 1863-1903.
- Dell, M. and B. Olken. 2020. "The Development Effects of the Extractive Colonial Economy: The Dutch Cultivation System in Java." *Review of Economic Studies*, 87(1): 164-203.
- Engerman, S. and K. Sokoloff. 1997. "Factors Endowments, Institutions, and Differential Paths of Growth among New World Economies." In *How Latin American Fell Behind*, ed. S. Haber. Stanford: Stanford University Press, 260-304.
- Nunn, N. 2008. "The Long-Term Effects of Africa's Slave Trades." *Quarterly Journal of Economics*, 123(1): 139-176.

## **12. Political Institutions: State Capacity and Development**

### **12.1 Origins of State Capacity**

- Besley, T. and T. Persson. 2009. "The Origins of State Capacity: Property Rights, Taxation and Politics." *American Economic Review*, 99(4): 1218-44.
- Dell, M., N. Lane and P. Querubin. "The Historical State, Local Collective Action, and Economic Development in Vietnam." *Econometrica*, 86(6): 2083-2121.
- Olson, M. "Dictatorship, Democracy, and Development." *American Political Science Review*, 87(3): 567-576.
- Sánchez de la Sierra, R. 2020. "On the Origins of the State: Stationary Bandits and Taxation in Eastern Congo." *Journal of Political Economy*, 128(1): 32-74.
- Tilly, C. 1992. *Coercion, Capital, and European States, AD 990-1992*. Wiley-Blackwell.

### **12.2 Corruption**

- Avis, E., C. Ferraz and F. Finan. 2018. "Do Government Audits Reduce Corruption? Estimating the Impacts of Exposing Corrupt Politicians." *Journal of Political Economy*, 126(5): 1912-1964.
- Brollo, F., T. Nannicini, R. Perotti and G. Tabellini. 2013. "The Political Resource Curse." *American Economic Review*, 103(5): 1759-1796.
- Colonnelli, E. and M. Prem. 2022. "Corruption and Firms." *Review of Economic Studies*, 89: 695-732.
- 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): 703-45.
- Ferraz, C. and F. Finan. 2011. "Electoral Accountability and Corruption: Evidence from the Audits of Local Governments." *American Economic Review*, 101(4): 1274-1311.

### **12.3 Enforcement, Contracts and Trade**

- Nunn, N. 2007. "Relationship-Specificity, Incomplete Contracts, and the Pattern of Trade." *Quarterly Journal of Economics*, 122(2): 569-600.

- Pascali, L. 2017. "The Wind of Change: Maritime Technology, Trade, and Economic Development." *American Economic Review*, 107(9): 2821-2854.
- Ponticelli, J. and L. S. Alencar. 2016. "Court Enforcement, Bank Loans, and Firm Investment: Evidence from a Bankruptcy Reform in Brazil." *Quarterly Journal of Economics*, 131(3): 1365-1413.

## GRADING

The evaluation for this course will be based on:

- Referee Reports (4) (60%)
- Problem Sets (1) (15%)
- Class Presentation (15%)
- Class Participation (10%)

Class attendance and participation is mandatory.