

Syllabus

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Course: Topics in Political Economy
Professor: Marcos Yamada Nakaguma

2020 SECOND SEMESTER

PROGRAM

This course provides an overview of the empirical and theoretical literature on political institutions and constitutions. We study how different institutional arrangements affect economic, political and social performance, taking into account the fact that institutions are themselves determined in equilibrium. The purpose of this course is to both familiarize students with the current political economy literature and help them develop the ability to apply empirical methods and construct simple theoretical models to address questions in economics and politics.

BIBLIOGRAPHY

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

1. Introduction: Political Economy, Questions and Methods.

- Merlo, A. "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. Political Institutions: Basic Concepts and Origins of the Literature

2.1 Social Choice and Arrow's Theorem

- Arrow, K. J. 1951. *Social Choice and Individual Values* (2nd ed.). New York: Wiley.
- Mas-Collel, A., M. D. Whinston and J. R. Green. *Microeconomic Theory*. Chapter 21: "Social Choice Theory".
- Reny, P. 2001. "Arrow's Theorem and the Gibbard-Satterthwaite Theorem: A Unified Approach." *Economic Letters*, 70(1): 99-105.

2.2 Bargaining and Transaction Costs

- Coase, R. H. 1937. "The Nature of the Firm." *Economica*, 4(16): 386-405.
- Coase, R. 1960. "The Problem of Social Cost." *Journal of Law and Economics*, 3(1): 1-44.
- Gambetta, D. 1996. *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.
- Nash, J. 1950. "The Bargaining Problem." *Econometrica*, 18(2): 155-162.

2.3 The Commitment Problem

- Acemoglu, D. 2003. "Why not a Political Coase Theorem? Social Conflict, Commitment and Politics." *Journal of Comparative Economics*, 31: 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.

3. Political Institutions and Development

3.1 Historical Institutions and Long-Run Development

- Acemoglu, D., S. Johnson and J. Robinson. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation." *American Economic Review*, 91(5), 1369-1401.
- Acemoglu, D. and S. Johnson. 2005. "Unbundling Institutions." *Journal of Political Economy*, 113(5): 949-95.
- Dell, M. 2010. "The Persistent Effects of Peru's Mining Mita." *Econometrica*, 78(6), 1863-1903.
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3.2 Institutions and Development: Topics

- 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.
- Bertrand, M. and S. Mullainathan. 2004. "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination." *American Economic Review*, 94(4): 991-1013.
- Chong, A., La Porta, R., F. Lopez-de-Silanes and A. Shleifer. 2014. "Letter Grading Government Efficiency." *Journal of the European Economic Association*, 12(2): 277-99.
- 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.
- Nunn, N. 2007. "Relationship-Specificity, Incomplete Contracts, and the Pattern of Trade." *Quarterly Journal of Economics*, 122(2): 569-600.

4. Democracy, Redistribution and Political Participation

- Alesina, A. and D. Rodrik. 1994. "Distributive Politics and Economic Growth." *Quarterly Journal of Economics*, 109(2): 465-490.
- Campante, F. 2011. "Redistribution in a Model of Voting and Campaign Contributions." *Journal of Public Economics*, 95(7-8): 646-56.
- DellaVigna, S., J. A. List, U. Malmendier and G. Rao. 2017. "Voting to Tell Others." *Review of Economic Studies*, 84: 143-181.
- Fujiwara, T. 2015. "Voting Technology, Political Responsiveness, and Infant Health: Evidence from Brazil." *Econometrica*, 83(2): 423-64.
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- Meltzer, A. and S. Richard. 1981. "A Rational Theory of the Size of Government." *Journal of Political Economy*, 89: 914-27.

5. Constitutions: Legislative Bargaining and Checks and Balances

- Baron, D. P. and J. A. Ferejohn. 1989. "Bargaining in Legislatures." *American Political Science Review*, 83(4): 1181-1206

- Ferejohn, J. A. 1986. "Incumbent Performance and Electoral Control." *Public Choice*, 50(1-3): 5-25.
- Nakaguma, M. Y. 2018. "Checks and Balances and Vote Buying in Legislatures: Theory and Evidence from Brazil." Working Paper.
- Persson, T., G. Roland and G. Tabellini. 2000. "Comparative Politics and Public Finance." *Journal of Political Economy*, 108(6): 1121-61.
- Persson T. and G. Tabellini. 2000. *Political Economics*. MIT Press. Chapter 9: "Institutions and Accountability", 225-49.

6. Constitutions: Electoral Rules and Forms of Government

6.1 Electoral Rules

- 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.
- 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.

6.2 Forms of Government

- Acemoglu, D. 2005. "Constitutions, Politics and Economics: A Review Essay on Persson and Tabellini's 'The Economic Effects of Constitutions'." *Journal of Economic Literature*, 43: 1025-48.
- Nakaguma, M. Y. 2015. "Choosing the Form of Government: Theory and Evidence from Brazil." *Economic Journal*, 125(December): 1986-2023.
- Persson T. and G. Tabellini. 2000. *Political Economics*. MIT Press. Chapter 10: "Political Regimes", 252-73.
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- Persson, T. and G. Tabellini. 2004. "Constitutional Rules and Fiscal Policy Outcomes." *American Economic Review*, 94(1): 25-45.

6.3 Brazilian Political System: Topics

- Ames, B. "Electoral Rules, Constituency Pressures and Pork Barrel: Bases of Voting in Brazilian Congress." *Journal of Politics*, 57(2): 324-43.
- Anagol, S. and T. Fujiwara. 2016. "The Runner-Up Effect." *Journal of Political Economy*, 124(4): 927-991.
- 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): 1912-1962.
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- Boas, T. and D. Hidalgo. 2011. "Controlling the Airwaves: Incumbency Advantage and Community Radio in Brazil." *American Journal of Political Science*, 55(4): 869-85.
- 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. 2019. "Patronage and Selection in Public Sector Organizations." Working Paper.
- Claessens, S., E. Feijen and L. Laeven. 2008. "Political Connections and Preferential Access to Finance: The Role of Campaign Contributions." *Journal of Financial Economics*, 88(3): 554-580.

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- Fisman, R., F. Schulz and V. Vig. 2014. "The Private Returns to Public Office." *Journal of Political Economy*, 122(4): 806-62.
- Limongi, F. 2006. "A Democracia no Brasil: Presidencialismo, Coalizão Partidária e Processo Decisório." *Novos Estudos*, 76(Novembro): 17-41.

7. Information Aggregation via Elections

- Austen-Smith, D. and J. S. Banks. 1996. "Information Aggregation, Rationality, and the Condorcet Jury Theorem." *American Political Science Review*, 90(1): 34-45.
- Battaglini, M., R.B. Morton and T. R. Palfrey. "The Swing Voter's Curse in the Laboratory." *Review of Economic Studies*, 77(1): 61-89.
- Bikhchandani, S, D. Hirshleifer and I. Welch. 1992. "A Theory of Fads, Fashion, Custom, and Cultural Change as Informational Cascades." *Journal of Political Economy*, 100(5): 992-1026.
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- Piketty, T. 1999. "The Information-aggregation Approach to Political Institutions." *European Economic Review*, 43: 791-800.

8. Transparency, Accountability and Career Concerns

- Levy, G. 2007. "Decision Making in Committees: Transparency, Reputation and Voting Rules." *American Economic Review*, 97(1): 150-68.
- Mattozzi, A. and M. Y. Nakaguma. 2019. "Public versus Secret Voting in Committees." Working paper.
- Morris, S. 2001. "Political Correctness." *Journal of Political Economy*, 109(2): 231-65.
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9. Credibility and Information Transmission in Political Processes

- Crawford, V. and J. Sobel. 1982. "Strategic Information Transmission." *Econometrica*, 50: 1431-70.
- Cukierman, A. e M. Tommasi. 1998. "When Does it Take Nixon to Go to China?" *American Economic Review*, 88:180-97.
- Feltovich, N., R. Harbaugh and T. To. 2002. "Too Cool for School? Signalling and Countersignalling." *RAND Journal of Economics*, 33(4): 630-49.
- Stein, J. C. 1989. "Cheap Talk and the Fed: A Theory of Imprecise Policy Announcements." *American Economic Review*, 79(1): 32-42.

10. Endogenous Institutions and Institutional Change

- Aghion, P., A. Alesina e F. Trebbi. 2004. "Endogenous Political Institutions." *Quarterly Journal of Economics*, 119(2): 565-611.
- Harstad, B. 2005. "Majority Rules and Incentives." *Quarterly Journal of Economics*, 120(4): 535-68.
- Hornbeck, R. e S. Naidu. 2014. "When the Levees Broke: Black Migration and Economic Development in the U.S. South" *American Economic Review*, 104(3): 963-90.
- Jones, B. e B. Olken. 2005. "Do Leaders Matter? National Leadership and Growth since World War II." *Quarterly Journal of Economics*, 120(3): 835-864.

- Trebbi, F., P. Aghion e A. Alesina. 2008. "Electoral Rules and Minority Representation in U.S. Cities." *Quarterly Journal of Economics*, 123(1): 325-357.

11. The Political Economy of Public Finance

- Alesina, A. e R. Perotti. 1995. "The Political Economy of Budget Deficits." *IMF Staff Papers*, 42(1): 1-31.
- Alesina, A. and A. Passalacqua. 2015. "The Political Economy of Government Debt." Working Paper.
- Drazen, A. 2000. *Political Economy in Macroeconomics*. Princeton University Press. Chapter 7: "Elections and Changes in Policymakers", 217-308.
- Pettersson-Lidbom, P. 2001. "An Empirical Investigation of the Strategic Use of Debt." *Journal of Political Economy*, 109: 570-584.
- Rogoff, K. 1990. "Equilibrium Political Budget Cycles." *American Economic Review*, 80(1): 21-36.

12. The Political Economy of Reforms and Crises

- Alesina, A. and A. Drazen. 1991. "Why are Stabilizations Delayed?" *American Economic Review*, 81(5): 1170-88.
- Drazen, A. 2000. *Political Economy in Macroeconomics*. Princeton University Press. Chapter 10: "Inaction, Delay, and Crisis", 403-454.
- Drazen, A. and W. Easterly. 2001. "Do Crisis Induce Reform? Simple Empirical Tests of Conventional Wisdom." *Economics and Politics*, 13(2): 129-157.
- Drazen, A. and V. Grilli. 1993. "The Benefit of Crises for Economic Reforms." *American Economic Review*, 83(3): 598-607.
- Fernandez, R. and D. Rodrik. 1991. "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty." *American Economic Review*, 81(5): 1146-55.
- Tommasi, M. and A. Velasco. 1996. "Where are we in the Political Economy of Reform?" *Journal of Policy Reform* 1, 187-238.

GRADING

The evaluation for this course will be based on:

- Referee Reports (approx. one per week) (70%)
- Presentation (20%)
- Participation in Class (10%)

Class attendance and participation is expected.