

ECON543- Political Institutes and Economic Development

Peking University HSBC Business School 2014 Spring

Logistics

Class: Room 229

1:30 p.m. -3:20 p.m. Tuesday and Friday

Instructor: Insook Lee (islee@phbs.pku.edu.cn)

Office Hours: 3:30 p.m. ~ 5:30 p.m. Tuesday or by appointment at Room 743

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Course Description

This class provides an introduction to theoretical analysis on the political economy of development. Basic economic theories are proposed for rigorously analyzing political decisions of various policies which eventually affects development and economic growth of the society. This course aims to cover not only some basic analytical tools of political economics but also the intuition behind them.

By analyzing how society decides economic policies that pave different paths of social development, this course can serve to address following questions. What are political institutions around the world and how do they affect policy making? How politics can affect economic development? Why do governments employ policies that hinder development? What accounts for political accountability?

Knowledge of basic microeconomic analysis is necessary (prerequisite) and that of game theory is recommended,

Learning Objectives

1. Professional knowledge about analyzing political phenomenon using theoretical tools of economics
Learn how to rigorously describe political decision of policies that eventually leads difference in economic growth and development.
2. Capacity to rigorously analyze a political decision:
The ability to elaborate political decision with theoretical model is useful for rigorously analyzing politician phenomenon. After all, the final aim is to answer how political institute affects forming economic policy decision and economic development in the end.
3. Logical ability to generate policy suggestions that can promotes economic development:
The knowledge about how difference in political institutes makes a difference in decision of economy policies is for offering predictions on how current political institutes generate a certain type of policies which pave different paths that lead to different economic outcomes. In particular, to generate policy suggestion to politicians for economic development in specific cases, we need develop the skills of logical reasoning to get the solution by applying the learned framework for analysis.
4. Communication skills for conveying idea and for a good team work:
In most of work places, team work is usual. Thus, it is useful to develop communicational and relationship skills for a team work. Moreover, in practice, it is

important to deliver your analysis about political aspects of economic policy choices to your (potential) audience and to persuade them.

In sum, eventual goal of this course is to guide you to being a professional who can conduct consulting (a research project) regarding tax-related business decisions.

Course Material

Main Textbook: "Political Economics: Explaining Economic Policy" by Torsten Persson and Guido Enrico Tabellini, MIT Press.

List of reading articles on each topic

"The Economic Effects of Constitution" by Torsten Persson and Guido Enrico Tabellini, MIT Press.

Course Works and Grading

Class participation/attitude	10%
Problem sets	30%
Exam (3rd of June)	35%
Presentation (Team Project)	25%

- Two problem sets will be assigned (before and after the exam). The first problem set weighs 20% and the second problem set does 10%. Submission after the announced deadline is graded as zero. The first problem set will be assigned as homework. The second problem set can be either homework or replaced with in-class quiz instead of solving in home.
- Exam will be held at **June 3rd Friday** in the class (1:30 p.m.- 3:20 p.m.). For the sake of fair grading by testing with the exactly equal written exam (which weighs most among others), no exception for the examination date is allowed. If you have time conflict, then not-taking this course is recommended.
- Presentation (Team Project):

Instead of taking a written final exam, how well you understand overall class materials will be tested by a team project on an application of what is discussed in the class via 30 minutes' presentation in the last week of the 4rd module. At most, by 16th of May, each team should be formed and list of team members should be submitted.

As long as relevant to the class, each team is free to choose the content of the presentation. Some examples will be offered in the middle of class, for reference. By the 13th of June, short proposal of the presentation (up to seven pages) is to be submitted. The presentation has to have clear research question, concrete research method, and accurate sources. The outcome should be original not copy other's work. As a penalty for plagiarism, both the grade for team project (25%) and the grade for class participation (10%) will be zero.

At the presentation in the last week of this module, each team should submit

both the presentation slide (submission of the term paper is optional) and detailed document about each student's contribution (which part you did for presentation) for the sake of fair grading.

[Reschedule] The class at the 2nd of May (Friday) will be rescheduled to the 14th of May (Wednesday) due to Labor day; and the class at the 27th of May (Tuesday) will be moved to the 21th of May (Wednesday) due to thesis defenses.

List of Topics in the Course

1. Introduction of the Course
Logistics, Scope and aim of the course; Overview of the course, Motivation, and Basic concepts.
2. Basic Frameworks for Analyzing Political Decision of Policy [Chapter 2]
How individuals' preference is aggregated to reach a social choice of economic policies? Existence of equilibrium choice of society, Median voter theorem, Impossibility theorem
3. Policy Choices via Political Competition [Chapter 3 & Chapter 5]
Various models of selecting representative in electoral competitions, Downsian electoral competition, Probabilistic voting model, Policy convergence and divergence, Lobbying model
4. Electoral Rules and Accountability of Politicians [Chapter 9 & Chapter 4]
Electoral rules and career concerns and accountability, Local election vs. national election, Majoritarian election vs. proportional election, Separation of powers with fully discretionary politicians
5. Policy Choices by Legislature and Political Regimes [Chapter 10]
When several politicians decide on policy in legislative bargaining (separation of powers), how policies are selected in the face of election, Policy choices in a simple legislature, Presidential-congressional regime, Parliamentary regime
6. Political Decision of Redistributive Policies [Chapter 6]
Applying theoretical frameworks of political decision makings, Public pension, Redistribution across different regions, Policy decision on unemployment insurance
7. Political Economy of Economic Growth [Chapter 14]
Theoretical analysis on political choices affecting income inequality and political instability and who they affect economic growth Income inequality and growth, Political instability and growth, Special interests, rents, and growth, Other political determinants of growth
8. Political Economy of Change in Economic System (Transition to Market Economy)
Key factors underlying the economic transitions, Big bang approach and gradualism
9. Case studies (Applications): presentations

List of Reading Articles

Acemoglu, Daron (2010) "Theory, general equilibrium, and political economy in development economics" *Journal of Economic Perspectives*, 24 (3) pp.17–32

Baron, D. (1994) "Electoral competition with informed and uninformed voters," *American Political Science Review*, 88: pp.33-47.

Barro, Robert (1973) "The control of politicians: an economic model." *Public Choice*, 14: pp.19-42

Beck, Thorsten and Luc Laeven (2005) "Institution building and growth in transition economies" *World Bank Policy Research Working Paper 3657*, July 2005

Besley, T., and Coate, S. (1997) "An economic model of representative democracy," *Quarterly Journal of Economics*, 112: pp.85-114

Black, D. (1948) "On the rationale of group decision making," *Journal of Political Economy*, 54: pp.249-271

Buchanan, J. M., and Faith, R. L. (1987) "Secession and the limits of taxation: Toward a theory of internal exit," *American Economic Review*, 77: pp.1023-1031

Diermeier, D and Feddersen, T. (1998) "Cohesion in legislatures and the vote of confidence procedure." *American Political Science Review*, 92: pp.611-621

European Bank for Reconstruction and Development (EBRD). (2000), *Transition Report 2000*. London: EBRD.

Fidrmuc, Jan (2000), "Economics of Voting in Post-communist Countries," *Electoral Studies* 19 (2/3), Special Issue: Economics and Elections, pp.199-217.

Ferejohn, J. (1986) "Incumbent performance and electoral control," *Public Choice*, 50: pp.5-26

Fernandez, Raquel and Rodrik, Dani (1991) "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty" *American Economic Review*, 81 (5): pp.1146-1155

Gerring, John, Strom C. Thacker, and Carola Moreno (2009) "Are parliamentary systems better?" *Comparative Political Studies*, 42(3): pp.327-359

Hellman, Joel S. (1998), "Winners Take All: The Politics of Partial Reform in Post-communist Transitions," *World Politics* 50:pp.203-234.

Holmstrom, B. (1982) "Managerial incentive problems – a dynamic perspective." *Review of Economic Studies* 66: pp.169-182

Iradian, Garbis (2007) "Rapid Growth in Transition Economies: Growth-Accounting Approach" *IMF Working paper* 164

Huber, John. (1996) "The vote of confidence in parliamentary democracies." *American Political Science Review*, 90(2): pp.269-282

Keeper, Philip (2004) "What does political economy tell us about economic development—and vice versa?" *Annual Review of Political Science* 7:pp.247–72

Klaus Deininger and Lyn Squire (1997) "Economic growth and income inequality: reexamining the links," *Finance & Development* March: pp.38-41

Lindbeck, A and Weibull J. (1987) "Balance-budget redistribution as the outcome of political competition," *Public Choice*, 52: pp.273-297

Mauro, Paolo (1995) "Corruption and growth," *The Quarterly Journal of Economics*, 110(3) pp. 681-712

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

Priscilla T. Y. Man and Shino Takayama (2013) "A unifying impossibility theorem," *Economic Theory* 54: pp.249–271

Saint-Paul G. (1996) "Exploring the political economy of labor market institution," *Economic Policy*, 23: pp.265-315.