

Political Economy Core, G53.1400

Fall 2008

Professor: Jon X Eguia, email eguia@nyu.edu. Office 315.

Pre-requisites:

Mathematical skills at the level of Math for Political Science G53.1110 or equivalent.
Game Theory knowledge at the level of Game Theory G53.2108 or equivalent. It suffices if the student simultaneously enrolls in G53.2108.

Course description:

Overview of fundamental contributions to the field of political economy, providing a rigorous theoretical foundation on the following topics:

- (1) Social choice and collective aggregation of preferences.
- (2) Electoral competition. The spatial model and theories of turnout.
- (3) Public choice, public economics and comparative electoral systems.

Starting with basic concepts such as preference relations and their properties, the course analyses the aggregation of individual preferences into group preferences. Social choice theory studies how a group makes a collective decision according to a rule based on individual preferences. The properties of several voting rules are considered, in the light of theoretical results that prove the impossibility of finding rules that satisfy a list of normatively desirable properties.

The second part of the course covers the spatial model of politics, in which rational agents have preferences defined over a vector policy space, typically one or two dimensional. The approach is game-theoretic: The policy outcome is the equilibrium of the game defined by the political institutions in place. Fundamental results such as the median-voter theorem and concepts such as the core, the top-cycle and the uncovered set are explained.

The last part of the course applies the previous results to study political economy questions of electoral competition, turnout, legislative bargaining, and economic policy outcomes. Elections with endogenous candidates, probabilistic voting models of redistribution and a simplified model of public economics with under different electoral systems are considered.

Course requirements:

Course grades are determined by a combination of problem sets, class participation, and a final exam. Collaboration by students is encouraged, but students must produce their own work.

Readings:

Given the wide scope of the material covered, no unique book is appropriate for the course, rather, several sources are useful.

1. Austen-Smith and Banks (1999) *Positive Political Theory I: Collective Preference*, Ann Arbor. University of Michigan Press. (Recommended, hard).
2. Austen-Smith and Banks (2004) *Positive Political Theory II: Strategy and Structure*, Ann Arbor. University of Michigan Press. (Recommended, hard).

3. Moulin (1998) *Axioms of Cooperative Decision Making*. Cambridge University Press. (More accessible, optional).
4. Persson and Tabellini (2000) *Political Economics: Explaining Economic Policy*. MIT Press. (Required for the third part of the syllabus, accessible).
5. Rubinstein (available free online): *Lecture Notes in Microeconomic Theory*. Useful only for the first few weeks of the course.

Syllabus:

- Week 1. Introduction. What is social choice. What is political economy.
Rubinstein Ch 10.
- Week 2. Preference relations. Choice. Rationality. Utility functions.
Rub Ch 1, 2, 8; Austen-Smith and Banks I Ch 1.
- Week 3. Aggregation rules. Voting rules and their properties. Condorcet paradox.
AS-B I Ch 2; Moulin part 4.
- Week 4. Arrow theorem. Gibbard-Satterthwaite theorem.
AS-B I Ch 2; Moulin part 4.
- Week 5. Restricting preferences. The spatial model in one dimension. Single-peaked, single-crossing preferences and the median voter theorem.
AS-B I Ch 4.
- Week 6. The spatial model in multiple dimensions. McKelvey theorem. Plott's conditions.
AS-B I Ch 5.
- Week 7. Other solution concepts. The top-cycle, the uncovered set. Structured-induced equilibrium. Application: The uncovered set in recent elections.
AS-B II Ch 5, 7.
- Week 8. Electoral competition. Downsian elections. Duverger's law. Elections with endogenous candidates.
AS-B II Ch 7, 8. Persson-Tabellini Chapter 3.
- Week 9. Models of turnout. The calculus of voting.
AS-B II Ch 7.
- Week 10. Legislative bargaining.
AS-B II Ch 6.
- Week 11. Public economics: Redistributive politics. The Meltzer and Richard theory.
P-T Ch 6.
- Week 12. Targeted redistribution. Probabilistic voting models of redistributive policies.
P-T Ch 7.
- Week 13. Comparative politics: Majority systems versus proportional representation.
P-T Ch 8.
- Week 14. Make up classes. Review. Q&A.