

**ECON 237**  
**Political Economy**  
FALL 2008

**Instructor:** Nageeb Ali, email: snali@ucsd.edu, Economics 214.

**Time and Location:** F 9:00am-12:00pm, ECON 304.

**Office Hours:** By appointment.

**Pre-requisites:** You should be a graduate student in either economics or political science and have taken a prior course in game theory. For Economics students, I will assume that you have taken the first year Ph.D. sequence in the Economics department. For Political Science students, you should have taken POLI 204C. I will assume a familiarity with game theory and standard equilibrium concepts.

**Description of the Course**

ECON 237 is a new course that explores game-theoretic issues in political economy. The purpose of this course is to give students both a sense of the research frontier and a good command of useful tools in the field.

Our overall focus will be on using formal techniques to analyze democratic institutions. Democratic systems are often considered to be *normatively good* in nations and organizations; our job will be to critically understand different facets of democracy, and consider their implications for society. We will analyze the efficacy of voting through several distinct lenses: reaching a stable ordering over alternatives, choosing good political candidates (who are affected by the incentive to win), or efficiently aggregating information dispersed in the electorate. We will try to model what incentives drive people to vote, whether it is strategic or moral. We will study decisionmaking by politicians, both in terms of how they respond to special interests and lobby groups, as well as in legislatures. We will examine some workhorse models in communication and information transmission as a way to think about the incentives of political experts. Finally, we will consider the process by which democratic institutions are built and form. While these topics are diverse, we will see that a common approach to studying these various questions yields many useful insights. Nevertheless, there will be several places where we will be dissatisfied by existing models, and my hope is that by studying these closely, we can all go on to write papers that fill existing lacunae.

I don't expect to cover all the papers mentioned here and will adjust which papers to study based on our interests, pace, and progress. I will announce these in class at least a week prior to the lecture. You should read all the papers that we cover in class: many of these are "classics," not just for their formal innovation but also because they have a powerful intuition and economic story. Reading papers at this stage is a great way to help you think about how to ask and answer research questions, and exposit your ideas as a paper.

For several topics, I will also use Grossman and Helpman's excellent book. I highly recommend that you purchase this book (which has been ordered by the bookstore): it does a terrific job at summarizing important insights and simplifying models to their essential ingredients.

**Grading:** There will be several assignments throughout the quarter. Assignments will be due in my mailbox by 5pm on the due date, and all assignments together will count for 50% of the grade (with each question weighted equally). The purpose of these assignments is to help us focus on the course material. You are encouraged to work together on these problems, but the goal is that every student understands the relevant material. As such, assignments should be submitted individually acknowledging all those with whom problems were discussed. As to whether the course will have a final paper, exam, or require a presentation will be decided once I see how many students enroll in it.

# Schedule of Readings

## 1. Direct Democracy and Electoral Competition

Grossman and Helpman (2001, Ch. 2), Bernheim and Nataraj (2008), Kartik and McAfee (2007), Osborne and Slivinski (1996), Besley and Coate (1997).

## 2. Legislative Decisionmaking:

Baron and Ferejohn (1989), Bernheim et al. (2006).

## 3. Information Aggregation Approach to Elections:

Austen-Smith and Banks (1996), Feddersen and Pesendorfer (1996, 1997), Duggan and Martinelli (2001), Razin (2003), Dekel and Piccione (2000), Ali and Kartik (2008).

## 4. Voter Turnout:

Palfrey and Rosenthal (1985), Feddersen (2004), Feddersen and Sandroni (2006), Coate and Conlin (2004).

## 5. Information Transmission:

Grossman and Helpman (2001, Ch. 4), Crawford and Sobel (1982), Krishna and Morgan (2001), Battaglini (2002), Morris (2001).

## 6. Lobbying and Special Interest Politics:

Grossman and Helpman (2001, Ch. 7-10), Bernheim and Whinston (1986a,b), Dixit et al. (1997), Coate (2004).

## 7. Democratization:

Acemoglu and Robinson (2000, 2006), Myerson (2006).

# References

- ACEMOGLU, D. AND J. ROBINSON (2000): “Why did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective,” *Quarterly Journal of Economics*, 115, 1167–1199.
- (2006): *Economic Origins of Dictatorship and Democracy*, Cambridge University Press.
- ALI, S. N. AND N. KARTIK (2008): “Social Learning in Elections,” Mimeo, UCSD.
- AUSTEN-SMITH, D. AND J. S. BANKS (1996): “Information Aggregation, Rationality, and the Condorcet Jury Theorem,” *The American Political Science Review*, 90, 34–45.
- BARON, D. AND J. FEREJOHN (1989): “Bargaining in Legislatures,” *American Political Science Review*, 83, 1181–1206.
- BATTAGLINI, M. (2002): “Multiple Referrals and Multidimensional Cheap Talk,” *Econometrica*, 70, 1379–1401.
- BERNHEIM, B. AND S. NATARAJ (2008): “A Solution Concept for Majority Rule in Dynamic Settings,” *Review of Economic Studies*.

- BERNHEIM, B., A. RANGEL, AND L. RAYO (2006): “The Power of the Last Word in Legislative Policy Making,” *Econometrica*, 74, 1161–1190.
- BERNHEIM, B. AND M. WHINSTON (1986a): “Common Agency,” *Econometrica*, 54, 923–942.
- (1986b): “Menu Auctions, Resource Allocation, and Economic Influence,” *Quarterly Journal of Economics*, 101, 1–31.
- BESLEY, T. AND S. COATE (1997): “An Economic Model of Representative Democracy,” *Quarterly Journal of Economics*, 112, 85–114.
- COATE, S. (2004): “Pareto-Improving Campaign Finance Policy,” *American Economic Review*, 94, 628–655.
- COATE, S. AND M. CONLIN (2004): “A Group Rule-Utilitarian Approach to Voter Turnout: Theory and Evidence,” *American Economic Review*, 94, 1476–1504.
- CRAWFORD, V. AND J. SOBEL (1982): “Strategic Information Transmission,” *Econometrica*, 50, 1431–1451.
- DEKEL, E. AND M. PICCIONE (2000): “Sequential Voting Procedures in Symmetric Binary Elections,” *Journal of Political Economy*, 108, 34–55.
- DIXIT, A., G. GROSSMAN, AND E. HELPMAN (1997): “Common Agency and Coordination: General Theory and Application to Government Policy Making,” *Journal of Political Economy*, 105, 752–769.
- DUGGAN, J. AND C. MARTINELLI (2001): “A Bayesian Model of Voting in Juries,” *Games and Economic Behavior*, 37, 259–294.
- FEDDERSEN, T. (2004): “Rational Choice Theory and the Paradox of Not Voting,” *Journal of Economic Perspectives*, 18, 99–112.
- FEDDERSEN, T. AND W. PESENDORFER (1996): “The Swing Voter’s Curse,” *The American Economic Review*, 86, 408–424.
- (1997): “Voting Behavior and Information Aggregation in Elections with Private Information,” *Econometrica*, 65, 1029–1058.
- FEDDERSEN, T. AND A. SANDRONI (2006): “A Theory of Participation in Elections,” *American Economic Review*, 96, 1271–1282.
- GROSSMAN, G. AND E. HELPMAN (2001): *Special Interest Politics*, MIT Press.
- KARTIK, N. AND R. MCAFEE (2007): “Signaling Character in Electoral Competition,” *The American Economic Review*, 97, 852–870.
- KRISHNA, V. AND J. MORGAN (2001): “A Model of Expertise,” *The Quarterly Journal of Economics*, 116, 747–775.
- MORRIS, S. (2001): “Political Correctness,” *Journal of Political Economy*, 109.
- MYERSON, R. (2006): “Federalism and Incentives for Success of Democracy,” *Quarterly Journal of Political Science*, 1, 3–23.
- OSBORNE, M. AND A. SLIVINSKI (1996): “A Model of Political Competition with Citizen Candidates,” *Quarterly Journal of Economics*, 111, 65–96.
- PALFREY, T. AND H. ROSENTHAL (1985): “Voter Participation and Strategic Uncertainty,” *American Political Science Review*, 79, 62–78.
- RAZIN, R. (2003): “Signaling and Election Motivations in a Voting Model with Common Values and Responsive Candidates,” *Econometrica*, 71, 1083–1119.