

# Collegio Carlo Alberto

UNIVERSITÀ DEGLI STUDI DI TORINO

## Political Economy

A.Y. 2020-2021

Instructor: Edoardo Grillo

### Contact Information

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### Description of the Course

Political economy is an interdisciplinary field that focuses on the interactions between political institutions, economic agents and legal systems. The primary goal of this course is to provide a formal and rigorous analysis of key topics in political economy and to provide answers to policy-relevant questions, such as:

- Under which conditions does majoritarian voting leads to coherent decisions?
- How does electoral competition affect taxation, public-good provision and other redistributive policies?
- To what extent can elections align the interests of voters and politicians?
- To what extent can lobbies affect politicians' decisions in their own favor?

### Course Outline

1. *Introduction* (½ class)
2. *Social Choice Theory* (2 and ½ class)
  - 2.1. Introductory examples.
  - 2.2. Arrow's impossibility theorem.
  - 2.3. Majoritarian voting: May's theorem. Single-peakedness and single-crossing.
3. *Electoral Competition and Voting* (3 classes)
  - 3.1. Downsian electoral model.
  - 3.2. Probabilistic voting model.
  - 3.3. Citizen-candidate model.
4. *Models of Electoral Accountability* (2 classes)
  - 4.1. Elections as a disciplining mechanism: retrospective voting.
  - 4.2. Elections as a selection tool: prospective voting.
5. *Redistribution* (3 classes)

- 5.1. Income-based redistribution: distortionary taxation and political equilibrium.
  - 5.2. Age-based redistribution: pension systems with overlapping generations.
  - 5.3. Labor-based redistribution: unemployment benefits and labor market regulations.
6. *Bargaining* (2 classes)
    - 6.1. Bargaining between two players: ultimatum game and Rubinstein's model.
    - 6.2. Bargaining among multiple players: legislative bargaining and Baron and Farejohn's model.
7. *Lobbying* (2 classes)
    - 7.1. Bribes as tools to control the politician
    - 7.2. Competition among lobbies in an electoral model
8. *Students' presentations* (3 classes)

### References and Course Material

The essential references for each topic are listed below (additional, non-mandatory references may be suggested during the course).

2. *Social Choice Theory*
  - Mas-Colell, A., Whinston, D. W., and Green, J.R., 1995, *Microeconomic Theory*, New York, Oxford University Press, Chapter 21.
  - Gans, J. S., and Smart, M., 1996, "Majority Voting with Single-Crossing Preferences", *Journal of Public Economics*, **59**(2), pp. 219-237.
3. *Electoral Competition*
  - Persson, T., and Tabellini, G., 2002, *Political Economics: Explaining Economic Policy*, Cambridge, The MIT Press, Chapter 3.
  - Downs, A., 1957, *An Economic Theory of Democracy*, New York, Harper and Row.
  - Lindbeck, A., and Weibull, J., 1987, "Balanced-budget redistribution as the outcome of political economy", *Public Choice*, **52**, pp. 273-297.
  - Osborne, M.J., and Slivinsky, A., 1996, "A model of political competition with citizen-candidates", *Quarterly Journal of Economics*, **111**, pp 65-96.
  - Besley, T., and Coate, S., 1997, "An economic model of representative democracy", *Quarterly Journal of Economics*, **112**, pp. 98-114.
4. *Electoral Accountability*
  - Persson, T. and Tabellini, G., 2002, *Political Economics: Explaining Economic Policy*, Cambridge, The MIT Press, Chapter 4.
5. *Redistribution*
  - Persson, T., and Tabellini, G., 2002, *Political Economics: Explaining Economic Policy*, Cambridge, The MIT Press, Chapter 6.
  - Meltzer, A. H., and Richard, S. F., 1981, "A Rational Theory of the Size of Government", **89**(51), pp. 914-927.

- Saint-Paul, G., 1993, “On the Political Economy of Labor Market Flexibility”, NBER Macroeconomics Annual 1193, **8**, pp. 151-196.
- Saint-Paul, G., Bean, R. C. and Bertola, G., 1996, “Exploring the Political Economy of Labor Market Institutions”, *Economic Policy*, **11**(23), pp. 263-315.

#### 6. *Bargaining*

- Rubinstein, A., 1982, “Perfect Equilibrium in a Bargaining Model”, *Econometrica*, **50**(1), pp. 97-110.
- Baron, D. P., and Farejohn, J. A., 1989, “Bargaining in Legislatures”, *American Political Science Review*, **83**(4), pp. 1181-1206.

#### 7. *Lobbying*

- Persson, T., and Tabellini, G., 2002, *Political Economics: Explaining Economic Policy*, Cambridge, The MIT Press, Chapter 7.
- Grossman, G., and Helpman, E., 1996 “Protection for Sale”, *American Economic Review*, **84**, pp. 833-850.
- Grossman, G., and Helpman, E., 1996 “Electoral Competition and special interest politics”, *Review of Economics Studies*, **63**, pp. 265-286.

#### Grading and Course Requirements

Your grade will be a weighted average of a final exam (75%) and students’ presentations (25%).