Political Economy
A.Y. 2020-2021
Instructor: Edoardo Grillo

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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 lead 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.

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. Bribe 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

3. Electoral Competition

4. Electoral Accountability

5. Redistribution


6. **Bargaining**

7. **Lobbying**

**Grading and Course Requirements**

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