

Econ 7384: Political Economy
Department of Economics, University of Houston
Fall 2022

Instructor: Gergely Ujhelyi
Office hours: by appointment.
E-mail: gujhelyi@uh.edu
Lectures: T, Th 1-2.30pm in S 102.

This graduate course provides an introduction to the field of modern political economy. We will discuss formal theories and empirical work seeking to understand political behavior such as voting, running for office, and lobbying, and the implications of these behaviors for economic policies and institutions. In turn, we will look at how “institutions,” such as civil service rules or campaign finance regulations, shape the behavior of government.

The course will be especially useful to students specializing in Public economics or Development economics, and will provide a valuable background to anyone interested in public policies.

Prerequisites

First year graduate Micro and Econometrics, or permission of the instructor.

Assignments and grading

There will be 2 problem sets focusing on theory (30%), a paper presentation and a mock referee report focusing on empirics (40%), and a final exam (30%).

For the presentation, each student will sign up to present one of the papers marked ** below.

The mock referee report can be replaced with a research project. This must be approved by me in advance.

Course policies and various requests

Late assignments will not be accepted. Any absence from an exam must be documented by a doctor or approved by me in advance. If you believe there is a grading error in your exam (other than the summing of the points), you can submit it for re-grading within one week after receiving your graded exam. Briefly describe the error in writing; I will then re-grade the entire exam (not just a single problem).

Students are responsible for being familiar with, and abiding by, the university's Academic Honesty Policy (<https://www.uh.edu/provost/policies-resources/honesty/>). Faculty have the responsibility of reporting incidents of alleged academic dishonesty. I would hate, but will not hesitate, to do this so please do not put me in this situation.

In order to make our time together as pleasant as possible and to make sure that everybody gets the most out of this class, please observe the following requests.

1. Please be on time. Late arrivals are distracting to both me and your fellow students.
2. Do not leave before the end of class. This is also very distracting.
3. During exams, if you finish early, please leave as quietly as possible. Please do not leave in the last 10 minutes (so if you finish 8 minutes early, please wait 8 minutes before you leave).
4. If you miss a class, please make sure you review what you missed before asking questions on the next class.

University policies

COVID-19. If you are experiencing any COVID-19 symptoms that are not clearly related to a pre-existing medical condition, do not come to class. Please see [Please see Student Protocols](#) for what to do if you experience symptoms and [Potential Exposure to Coronavirus](#) for what to do if you have potentially been exposed to COVID-19. Consult the [Graduate Excused Absence Policy](#) for information regarding excused absences due to medical reasons.

Students are encouraged to visit the University's [COVID-19](#) website for important information including diagnosis and symptom protocols, on-campus testing, and vaccine information. Please check the website throughout the semester for updates.

Data suggests that vaccination remains the best intervention for reliable protection against COVID-19. Students are asked to familiarize themselves with pertinent [vaccine information](#) and to consult with their health care provider. The University strongly encourages all students, faculty and staff to be vaccinated.

Reasonable Academic Adjustments/Auxiliary Aids. The University of Houston complies with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, pertaining to the provision of reasonable academic adjustments/auxiliary aids for disabled students. In accordance with Section 504 and ADA guidelines, UH strives to provide reasonable academic adjustments/auxiliary aids to students who request and require them. If you believe that you have a disability requiring an academic adjustments/auxiliary aid, please contact [the Justin Dart Jr. Student Accessibility Center](#) (formerly the Justin Dart, Jr. Center for Students with DisABILITIES).

Excused Absence Policy. Regular class attendance, participation, and engagement in coursework are important contributors to student success. Absences may be excused as provided in the University of Houston [Graduate Excused Absence Policy](#) for reasons including: medical illness of student or close relative, death of a close family member, legal or government proceeding that a student is obligated to attend, recognized professional and educational activities where the student is presenting, and University-sponsored activity or athletic competition. Under these policies, students with excused absences will be provided with an opportunity to make up any quiz, exam or other work that contributes to the course grade or a satisfactory alternative. Please read the full policy for details regarding reasons for excused absences, the approval process, and extended absences. Additional policies address absences related to [military service](#), [religious holy days](#), [pregnancy and related conditions](#), and [disability](#).

Recording of Class. Students may not record all or part of class, livestream all or part of class, or make/distribute screen captures, without advanced written consent of the instructor. If you have or think you may have a disability such that you need to record class-related activities, please

contact the [Justin Dart, Jr. Student Accessibility Center](#). If you have an accommodation to record class-related activities, those recordings may not be shared with any other student, whether in this course or not, or with any other person or on any other platform. Classes may be recorded by the instructor. Students may use instructor's recordings for their own studying and notetaking. Instructor's recordings are not authorized to be shared with *anyone* without the prior written approval of the instructor. Failure to comply with requirements regarding recordings will result in a disciplinary referral to the Dean of Students Office and may result in disciplinary action.

Syllabus Changes. Due to the changing nature of the COVID-19 pandemic, please note that the instructor may need to make modifications to the course syllabus and may do so at any time. Notice of such changes will be announced as quickly as possible through email.

Textbooks and surveys

Political economy is a vast field overlapping with many others, and no single textbook covers exactly the topics we will cover. Some of the readings below are from the following two books:

Persson, T., and G. Tabellini (2002): *Political Economics: Explaining Economic Policy*, MIT Press. (PT)

Grossman, G.M., and E. Helpman (2001): *Special Interest Politics*, MIT Press. (GH)

Other useful textbooks / surveys to look at:

Besley, T. (2007): *Principled Agents? The political economy of good government*, Oxford University Press.

Drazen, A. (2000): *Political Economy in Macroeconomics*, Princeton University Press.

Mueller, D.C. (2003): *Public Choice III*, Cambridge University Press.

Persson, T., and G. Tabellini (2003): *The Economic Effects of Constitutions*, MIT Press.

Weingast, B.R. and D.A. Wittman (eds.) (2006): *The Oxford Handbook of Political Economy*, Oxford University Press.

Tentative agenda and readings

(required readings are marked *; papers for student presentations are marked **)

I. CLASSICAL APPROACHES TO POLICY FORMATION

I.1 The limits of 'black box' government

PT Chapter 1

*Knight, B. (2002): "Endogenous federal grants and crowd-out of state government spending: theory and evidence from the federal highway aid program," *American Economic Review* 92(1), 71-92.

I.2 The median voter theorem

*PT Chapter 2

*Alesina, A., R. Baqir; and W. Easterly (1999): "Public Goods and Ethnic Divisions," *The Quarterly Journal of Economics* 114(4), 1243-1284.

II. VOTERS

II.1 Background

Lijphart, A. (1997): "Unequal Participation: Democracy's Unresolved Dilemma," *The American Political Science Review* 91(1), 1-14.

*Merlo, A. (2006): "Whither Political Economy? Theories, Facts and Issues," Section 2. (Available on the author's website.)

GH Chapter 3.1

II.2 The pivotal voter model

*Palfrey, T. R., and H. Rosenthal (1983): "A Strategic Calculus of Voting," *Public Choice* 41, 7-53.

Palfrey, T.R., and H. Rosenthal (1985): "Voter Participation and Strategic Uncertainty," *American Political Science Review* 79, 62-78.

Börger, T. (2004): "Costly Voting," *American Economic Review* 94(1), 57-66.

**Duffy, J., and M. Tavits (2008): "Beliefs and Voting Decisions: A Test of the Pivotal Voter Model," *American Journal of Political Science* 52(3), 603-618.

*Coate, S., M. Conlin and A. Moro (2008): "The Performance of the Pivotal-Voter Model in Small-Scale Elections: Evidence from Texas Liquor Referenda," *Journal of Public Economics* 92, 582-596

II.3 Information, voting and turnout

Feddersen, T.J., and W. Pesendorfer (1996): "The Swing Voter's Curse," *American Economic Review* 86, 408-424.

Snyder, J., and D. Stromberg (2010): "Press Coverage and Accountability," *Journal of Political Economy* 118(2), 355-408.

**Gentzkow, M. (2006): "Television and voter turnout," *Quarterly Journal of Economics* 121(3), 931-72.

Gentzkow, M., J.M. Shapiro, and M. Sinkinson (2011): "The Effect of Newspaper Entry and Exit on Electoral Politics," *American Economic Review* 101, 2980-3018.

II.4 Other determinants of voting and turnout

- **Fujiwara, T. (2015): "Voting Technology, Political Responsiveness, and Infant Health: Evidence From Brazil," *Econometrica* 83(2), 423-464.
- **DellaVigna, S., J.A. List, U. Malmendier, and G. Rao (2017): "Voting to Tell Others," *The Review of Economic Studies* 84(1), 143–181.
- Coate, S. and M. Conlin (2004): "A Group Rule-Utilitarian Approach to Voter Turnout: Theory and Evidence," *American Economic Review* 94, 1476-1504.
- Washington, E. (2006): "How Black Candidates Affect Voter Turnout," *Quarterly Journal of Economics* 121(3), 973-998.
- G. Ujhelyi, S. Chatterjee, and A. Szabó (2021): "None Of The Above: Protest Voting in the World's Largest Democracy" *Journal of the European Economic Association* 19(3), 1936–1979.

III. POLITICIANS

III.1 Office-seeking politicians

- *PT Chapters 3.1-3.4
- Meltzer, A., and S. Richard (1981): "A rational theory of the size of government," *Journal of Political Economy* 89, 914-27.
- Lindbeck, A., and J.W. Weibull (1987): "Balanced-budget redistribution as the outcome of political competition," *Public Choice* 52, 273-297.
- **Boustan, L., F. Ferreira, H. Winkler, and E.M. Zolt (2013): "The Effect of Rising Income Inequality On Taxation and Public Expenditures: Evidence From U.S. Municipalities and School Districts, 1970-2000," *The Review of Economics and Statistics*, 95(4): 1291-1302.
- *Strömberg, D. (2008): "How the Electoral College Influences Campaigns and Policy: The Probability of Being Florida," *American Economic Review* 98(3), 769–807.

III.2 Partisan politicians

- *PT Chapters 5.1-5.3
- Merlo (2006): "Whither Political Economy? Theories, Facts and Issues," Section 3.
- *Besley, T., and S. Coate (1997): "An Economic Model of Representative Democracy," *Quarterly Journal of Economics* 112, 85-114.
- Osborne, M., and A. Slivinski (1996): "A Model of Political Competition with Citizen-Candidates," *Quarterly Journal of Economics* 111, 65-96.
- Ansolabehere S, J.M. Snyder, and C. Stewart (2001): "Candidate Positions in Congressional Elections," *American Journal of Political Science* 45.
- **Gerber, E.R., J.B. Lewis (2004): "Beyond the Median: Voter Preferences, District Heterogeneity, and Political Representation," *Journal of Political Economy* 112(6), 1364-83.
- *Lee, D., E. Moretti, and M. Butler (2004): "Do Voters Affect or Elect Policies? Evidence from the U.S. House," *Quarterly Journal of Economics* 119(3), 807-859.
- **Washington, E. (2008): "Female Socialization: How Daughters Affect Their Legislator Fathers' Voting on Women's Issues," *American Economic Review* 98(1), 311–332.
- Diermeier, D., M. Keane, and A. Merlo (2005): "A Political Economy Model of Congressional Careers," *American Economic Review* 95(1), 347-373.

III.3 Political agency

Besley, T. (2007): *Principled Agents?* Chapter 3.

*Maskin, E., and J. Tirole (2004): "The politician and the Judge: Accountability in Government," *American Economic Review* 94(4), 1034-1054.

Besley, T., and A. Case (1995): "Does Electoral Accountability Affect Economic Policy Choices? Evidence from Gubernatorial Term Limits," *Quarterly Journal of Economics* 110(3), 769-798.

**List, J.A., and D.M. Sturm (2006): "How Elections Matter: Theory and Evidence from Environmental Policy," *Quarterly Journal of Economics* 121(4), 1249-81.

Besley, T., and A. Prat (2006): "Handcuffs for the Grabbing Hand? Media Capture and Government Accountability," *American Economic Review* 96(3), 720-736.

**Hessami, Z. (2018): "Accountability and Incentives of Appointed and Elected Public Officials," *Review of Economics and Statistics* 100(1), 51-64.

IV. BUREAUCRATS

IV.1 Bureaucratic performance

Banerjee, A.V. (1997): "A theory of misgovernance," *Quarterly Journal of Economics* 112(4), 1289-1332.

*Prendergast, C. (2007): "The Motivation and Bias of Bureaucrats," *American Economic Review* 97(1), 180-196.

Alesina, A., and G. Tabellini (2007): "Bureaucrats or Politicians? Part I: A single policy task," *American Economic Review* 97(1), 169-179.

Bandiera, O., A. Prat, and T. Valletti (2009): "Active and Passive Waste in Government Spending: Evidence from a Policy Experiment," *American Economic Review* 99(4), 1278-1308.

Di Tella, R., and E. Schargrodsky (2003): "The Role of Wages and Auditing during a Crackdown on Corruption in the City of Buenos Aires," *Journal of Law and Economics* 46(1), 269-292.

**Dal Bo, E., F. Finan, and M.A. Rossi (2013): "Strengthening State Capabilities: The Role of Financial Incentives in the Call to Public Service," *Quarterly Journal of Economics* 128(3), 1169-1218.

Neggers, Y. (2018): "Enfranchising Your Own? Experimental Evidence on Bureaucrat Diversity and Election Bias in India," *American Economic Review* 108(6), 1288-1321.

IV.2 Politicians and bureaucrats

*Fox, J., and S.V. Jordan (2011): "Delegation and Accountability," *Journal of Politics* 73(3), 831-844.

Ting, M. (2003): "A Strategic Theory of Bureaucratic Redundancy," *American Journal of Political Science* 47(2), 274-292.

Gailmard, S., and J.W. Patty (2007): "Slackers and Zealots: Civil Service, Policy Discretion, and Bureaucratic Expertise," *American Journal of Political Science* 51(4), 873-889.

**Makowsky, M.D., and T. Stratmann (2009): "Political Economy at Any Speed: What Determines Traffic Citations?" *American Economic Review* 99(1), 509-527.

Iyer, L., and Mani, A. (2012): "Traveling Agents: Political Change and Bureaucratic Turnover in India," *Review of Economics and Statistics* 94 (3), 723-39.

- **Akhtari, M., D. Moreira, and L. Trucco (2022): “Political turnover, bureaucratic turnover, and the quality of public services,” *American Economic Review* 112(2), 442-93.
- J.G. Forand, G. Ujhelyi, and M. Ting (2022): “Bureaucrats and Policies in Equilibrium Administrations,” *Journal of the European Economic Association*, forthcoming.

IV.3 Bureaucratic institutions

- *Ujhelyi, G. (2014): “Civil Service Reform,” *Journal of Public Economics* 118, 15-25.
- Rauch, J.E. (1995): “Bureaucracy, Infrastructure, and Economic Growth: Evidence from US Cities During the Progressive Era,” *American Economic Review* 85(4), 968-979.
- Folke, O., S. Hirano, and J. M. Snyder, Jr. (2011): “Patronage and Elections in US States,” *American Political Science Review* 105(3), 567-585.
- *Ujhelyi, G. (2014): “Civil Service Rules and Policy Choices: Evidence from US State Governments,” *American Economic Journal: Economic Policy* 6(2), 338-380.
- D. Bostashvili and G. Ujhelyi (2019): “Political Budget Cycles and the Civil Service: Evidence from Highway Spending in US States,” *Journal of Public Economics* 175, 17-28.
- Huber, J., and M. Ting (2021): “Civil Service and Patronage in Bureaucracies,” *Journal of Politics* 83(3), 902-916.
- Ornaghi, A. (2019): “Civil Service Reforms: Evidence from US Police Departments,” working paper.
- Bai, Y., and R. Jia (2016): “Elite Recruitment and Political Stability: The Impact of the Abolition of China's Civil Service Exam,” *Econometrica* 84(2), 677-733.
- J.G. Forand and G. Ujhelyi (2021): “Don't Hatch The Messenger? On the Desirability of Restricting the Political Activity of Bureaucrats,” *Journal of Theoretical Politics* 33(1), 95-139.

V. INTEREST GROUPS

V.1 Information

*GH Chapters 4.1, 5.1

- **Bertrand, M., M. Bombardini, and F. Trebbi (2014): “Is It Whom You Know or What You Know? An Empirical Assessment of the Lobbying Process,” *American Economic Review* 104(12), 3885-3920.

V.2 Campaign contributions

*GH Chapters 7, 8

Mueller (2003): Public Choice III, Chapter 15

Bernheim, B. D., and M.D. Whinston, Michael D. (1986): “Menu Auctions, Resource Allocation, and Economic Influence,” *Quarterly Journal of Economics* 101(1), 1-31.

*Grossman, G.M., and E. Helpman (1994): “Protection for Sale,” *American Economic Review* 84(4), 833-850.

Goldberg, P.K., and G. Maggi (1999): “Protection for Sale: An Empirical Investigation,” *American Economic Review* 89(5), 1135-1155.

*Fredriksson, P.G., and J. Svensson (2003): “Political Instability, Corruption and Policy Formation: The Case of Environmental Policy,” *Journal of Public Economics* 87(7-8), 1383-1405.

Bombardini, M., and F. Trebbi (2011): "Votes or Money? Theory and Evidence from the US Congress," *Journal of Public Economics* 95(7-8), 587-611.

V.3 Campaign finance regulation

*Ansolabehere, S., J.M. de Figueiredo, and J.M. Snyder Jr. (2003): "Why is there so little money in US politics?" *The Journal of Economic Perspectives* 17(1), 105-130.

*Coate, S. (2004): "Pareto-Improving Campaign Finance Policy," *American Economic Review* 94(3), 628-655.

Prat, A. (2002): "Campaign Advertising and Voter Welfare," *Review of Economic Studies* 69, 999-1017.

*Ujhelyi, G. (2009): "Campaign Finance Regulation with Competing Interest Groups," *Journal of Public Economics* 93(3-4), 373-391.

V.4 Corruption

Mauro, P. (1995): "Corruption and Growth," *Quarterly Journal of Economics* 110(3), 681-712.

Ades, A., and R. Di Tella (1999): "Rents, Competition, and Corruption," *American Economic Review* 89(4), 982-993.

*Treisman, D. (2000): "The causes of corruption: a cross-national study," *Journal of Public Economics* 76, 399-457.

Donchev, D., and G. Ujhelyi (2014): "What Do Corruption Indices Measure?" *Economics & Politics* 26(2), 309-331.

Glaeser, E.L., and R.E. Saks (2006): "Corruption in America," *Journal of Public Economics* 90(6-7), 1053-1072.

Gorodnichenko, Y., and K. Sabirianova Peter (2007): "Public sector pay and corruption: Measuring bribery from micro data," *Journal of Public Economics* 91, 963-991.

**Fisman, R., and E. Miguel (2007): "Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets", *Journal of Political Economy* 115(6), 1020-1048.

**Ferraz, C., and F. Finan (2008): "Exposing corrupt politicians: The effects of Brazil's publicly released audits on electoral outcomes," *Quarterly Journal of Economics* 123(2), 747-793.

DellaVigna, S., R. Durante, B. Knight, and E. La Ferrara (2016): "Market-Based Lobbying: Evidence from Advertising Spending in Italy," *American Economic Journal: Applied Economics* 8(1), 224-56.