

Course: **Political Economy**

Feb-June 2013

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Background

This course is designed for students interested in the impact of politics on economic processes and outcomes, and the reciprocal influence of economic conditions on political life. It aims at providing a broad introduction to current research in political economy. The course is taught in lecture as well as in tutorial format. Assessment will be based on written examination. You have to receive positive mark for tutorials in order to be allowed to write final exam. Requirements for tutorials will be provided during first class.

Lectures: Mondays, 15:00-16:45, room F (first class – 18th of Feb)

Tutorials: Fridays, 13:15-14:50, room 201 (first class – 22nd of Feb)

Evaluation

Tutorials: 40 percent; Final exam: 60 percent

Reading list

The reading list contains several papers, both theoretical and empirical, that are quite complicated. You are only expected to understand the main idea of each, as explained in class. Papers marked with (*) are obligatory.

General references

- Persson, T. and G. Tabellini (2000). *Political Economics – Explaining Economic Policy*, MIT Press, Cambridge.
- Acemoglu and Robinson (2005). *Economic origins of democracy and dictatorship*, Cambridge University Press.

Lecture topics and readings

1. An introduction to political economy (18th of February)

(* Besley, Timothy (2007). "The New Political Economy", *The Economic Journal*, 117, 570-587.

Merlo Antonio (2005). "Whither Political Economy? Theories, Facts and Issues," in Blundell, R., W. Newey and T. Persson (eds.) *Advances in Economics and Econometrics Theory and Applications*, Ninth World Congress, Vol I, Cambridge University Press, available at <http://www.eswc2005.com/>

Persson, T. and G. Tabellini (2000). *Political Economics – Explaining Economic Policy*, MIT Press, Cambridge. Chapter 1

2. Institutions (25th of February)

Acemoglu and Robinson(2005). *Economic origins of democracy and dictatorship*, Cambridge University Press. Part 1.

(* North, Douglass C., (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press. Part 1.

3. Property rights (4th of March)

Acemoglu, Daron, and Simon Johnson (2005). "Unbundling institutions.", *Journal of Political Economy* 113(5), 949-995.

(* Besley, Timothy (1995). "Property rights and investment incentives: theory and evidence from Ghana.", *Journal of Political Economy* 103(5), 903-937.

Besley, Timothy and Maitreesh Ghatak (2009), "Property Rights and Economic Development.", in Dani Rodrik and Mark Rosenzweig (eds.) *Handbook of Development Economics* Vol. V, Amsterdam: Elsevier.

4. Economic growth and institutions (11th of March)

(*Acemoglu, Daron (2008). *Introduction to modern growth theory*, Princeton University Press. – chapter 1 & chapter 22

Acemoglu, Daron, Simon Johnson, and James A. Robinson, (2001). "The colonial origins of comparative development: an empirical investigation", *American Economic Review* 91(5), 1369-1401.

Glaeser, Edward L., Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer (2004). "Do institutions cause growth?", available at: http://www.economics.harvard.edu/faculty/glaeser/files/Institutions_Growth.pdf

Rodrik, Dani (2007). *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*, Princeton University Press, 2007. Chapters 5 & 6.

5. Weak and strong states (18th March)

Acemoglu, Daron (2005). Politics and Economics in Weak and Strong States. *Journal of Monetary Economics*, 52 (7), 1199–1226.

(*) Besley, Timothy, Persson, Torsten (2009). The origins of state capacity: property rights, taxation and politics. *American Economic Review* 99, 1218–1244.

Besley, Timothy, Persson, Torsten (2011). Fragile states and development policy. *Journal of the European Economic Association* 9, 371–398.

Easterly, William (2003). ‘Can Foreign Aid Buy Growth’, *Journal of Economic Perspectives* 17(3), 23-48.

6. Democracy and growth (25th of March)

Acemoglu, Daron, Simon Johnson, James A. Robinson, and Pierre Yared (2008), “Income and Democracy”, *American Economic Review* 98(3), 808-842.

Gundlach, Erich, and Martin Paldam (2009). “A farewell to critical juncture: Sorting out long-run causality of income and democracy,” *European Journal of Political Economy* 25(3), 340-354.

(*) Przeworski Adam and Fernando Limongi (1993) “Political Regimes and Economic Growth.”, *Journal of Economic Perspectives*, vol. 7, issue 3, pages 51-69.

Rodrik, Dani, and Romain Wacziarg (2005). “Do democratic transitions produce bad economic outcomes?” *American Economic Review* 95(2), 50-55.

7. Economic performances under autocratic regimes (8th of April)

Acemoglu, Daron, James A. Robinson, and Thierry Verdier (2004). “Kleptocracy and Divide and Rule: A Model of Personal Rule,” *Journal of the European Economic Association* 2(2-3), 162-192.

Besley & Kudamatsu (2008). “Besley, Timothy, and Masayuki Kudamatsu, “Making Autocracy Work”, in: Helpman, E. (ed.), *Institutions and Economic Performance* (Harvard, Harvard University Press). Available at <http://econ.lse.ac.uk/staff/tbesley/papers/maw.pdf>

(*) McGuire and Olson (1996). “The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force,” *Journal of Economic Literature* 34(1), 72-96.

8. Political institutions and public policies (15th of April)

Besley, Timothy, and Anne Case (2003). “Political Institutions and Policy Choices: Evidence from the United States.” *Journal of Economic Literature*, 41(1), 7-73.

Giavazzi, Francesco, and Guido Tabellini (2005). "Economic and political liberalization," *Journal of Monetary Economics* 52, 1297-1330.

(* Greif, Avner (2008). "The Impact of Administrative Power on Political and Economic Development: Toward Political Economy of Implementation.", in Helpman, E. (ed.), *Institutions and Economic Performance* (Harvard, Harvard University Press).

Persson, Torsten, and Guido Tabellini (2003). *The Economic Effects of Constitutions: What do the Data Say?*, Cambridge: MIT Press. Chapter 4.

9. Political institutions and public policies (cont.) – political competition (22nd of April)

Acemoglu, Daron and James Robinson (2006). "Economic Backwardness in Political Perspective," *American Political Science Review* 100(1), 115-131.

Aidt, Toke S. (2003). "Redistribution and deadweight cost: the role of political competition." *European Journal of Political Economy* 19, 205-226.

Bardhan Pranab, and Tsung-Tao Yang (2004). "Political Competition in Economic Perspective," BREAD Working Paper No. 078 July 2004.

(* Besley, Timothy, Torsten Persson, and Daniel M. Sturm (2010). "Political Competition, Policy and Growth: Theory and Evidence from the United States." *Review of Economic Studies* (forthcoming)

Lizzeri, Alessandro and Nicola Persico (2005). "A drawback of electoral competition." *Journal of European Economic Association* 3(6), 1318-1348.

10. Political economy of international trade (29th of April)

Grossman, Gene M. and Elhanan Helpman (1995). "The Politics of Free Trade Agreements," *American Economic Review*.

Helpman, Elhanan (1999). "The Structure of Foreign Trade," *Journal of Economic Perspectives* 13(2), 121-44.

Mitra, Daveshin, Dimitrios D. Thomakos, and Mehmet A. Ulubasoglu (2002) "'Protection for Sale' in a Developing Country: Democracy versus Dictatorship," *Review of Economics and Statistics*.

(* Krugman, Paul R. and Maurice Obstfeld (2009). *International Economics: Theory and Policy* (Boston: Addison Wesley), Eighth edition, Chapter 9

Krugman, Paul "What Do Undergraduates Need to Know About Trade?" NBER, available at: <http://www.nber.org/~rosenbla/econ110/lecture/krugman.htm>

11. The economic value of political connections (4th of June)

Fisman, Raymond (2001). Estimating the Value of Political Connections. *American Economic Review* 91(4), 1095-1102.

Faccio, Mara (2006). Politically Connected Firms. *American Economic Review* 96(1), 369-86.

Marcus Goldstein and Chris Udry. 2005. "The Profits of Power: Land Rights and Agricultural Investment in Ghana." Yale Economic Growth Center Working Paper 929. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=868655

12. Political economy of media (13th of May)

Besley, Timothy, and Robin Burgess (2002). "The political economy of government responsiveness: theory and evidence from India." *Quarterly Journal of Economics* 117(4), 1415-1451.

Dyck, Alexander, Natalya Volchkova, and Luigi Zingales (2008). "The Corporate Governance Role of the Media: Evidence from Russia," *Journal of Finance* 63 (3): 1093-1135.

(*) Stromberg, David (2004). "Radio's impact on public spending", *Quarterly Journal of Economics* 119(1).

13. Inequality (20th of May)

(*) Glaeser, E. (2005). Inequality. *Harvard Institute of Economic Research, Discussion Paper* No. 2078. (on-line: <http://post.economics.harvard.edu/hier/2005papers/2005list.html>)

Przeworski, A. (2010). *Democracy and the Limits of Self-Government*, Cambridge, New York, Chapter 4 (pp. 66-98).

14. Taxes (27th of May)

Andreoni, J., B. Erard, and J. Feinstein (1998). "Tax Compliance." *Journal of Economic Literature* 36, 818-860.

Goolsbee, A. (2000). "What Happens When You Tax the Rich? Evidence from Executive Compensation." *Journal of Political Economy* 108, 352-378.

Gruber, J. and E. Saez (2002). "The Elasticity of Taxable Income: Evidence and Implications." *Journal of Public Economics* 84, 1-32.

Saez, E., J. Slemrod, and S. Giertz (2010). "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review." *Journal of Economic Literature*, *forthcoming*

(*) Slemrod, J. (2007). "Cheating Ourselves: The Economics of Tax Evasion." *Journal of Economic Perspectives* 21, Winter, 25-48.

15. Unemployment (4th of June)

Matthews K, Minford P and Naraidoo K (2008), "Vicious and virtuous circles – the political economy of unemployment in interwar UK and USA", *European Journal of Political Economy*

(*) Saint-Paul, Gilles (2002). "The Political Economy of Employment Protection.", *Journal of Political Economy* 110(3), 672-704