

## ECONOMICS 7380: PUBLIC CHOICE

Department of Economics, Cornell University, Fall 2011

Professor Stephen Coate  
476 Uris Hall; [sc163@cornell.edu](mailto:sc163@cornell.edu)  
Office hours: Tues 11-12 and Thurs 2-3

### COURSE DESCRIPTION

This course provides an introduction to the economic analysis of politics, a field referred to as *public choice* or *political economy*. Part I provides an overview of economic theories of political behavior. Part II discusses alternative voting methods and electoral systems. Part III discusses how political decisions are distorted away from those that would be made by the benevolent governments from economics textbooks. Part IV offers economic perspectives on a number of contemporary political issues.

### PREREQUISITES

This is an advanced course intended for graduate students who are interested in learning about and analyzing economic models of politics. The course will draw on knowledge of microeconomics, macroeconomics, and statistics and econometrics. Economic models of politics tend to be game theoretic, so familiarity with game theoretic reasoning is highly desirable. The course focuses primarily on theoretical models, but relevant empirical work will be discussed.

### TEXTS AND READING

I will put the lecture notes on the class Blackboard site and you should print them out and bring them to each class. This will help you follow the lectures. The lecture notes are self-contained and comprehensive and there is no textbook required. Nonetheless, you may find the following books useful if you become interested in the area.

- Besley, T., *Principled Agents: Motivation and Incentives in Politics*, Oxford University Press, 2006. (B)  
Drazen, A., *Political Economy in Macroeconomics*, Princeton University Press, 2000. (D)  
Grossman, G. and E. Helpman, *Special Interest Politics*, MIT Press, 2001. (G & H)  
Morton, R., *Analyzing Elections*, Norton, 2006. (M)  
Persson, T. and G. Tabellini, *Political Economics: Explaining Economic Policy*, MIT Press, 2000. (P & T)  
Shepsle, K., *Analyzing Politics*, 2<sup>nd</sup> Edition, Norton, 2010. (S)  
Weingast, B. and D. Wittman, *Oxford Handbook of Political Economy*, Oxford University Press, 2006. (W & W)

P & T is a graduate textbook covering the field of public choice. It covers most of the material discussed in Part I of the course as well as applications of the theory to a wide variety of policy problems. It is well written and interesting. G & H is a graduate text, more tightly focused around the issue of the influence of interest groups on policy-making. It is a fine book. D is another graduate text on political economy with a macro focus. It is pretty interesting, but

spends less time on the political science stuff and more on macro applications. M is an advanced undergraduate textbook on American Politics. It contains useful institutional detail and discussion of the substantive issues. It also has an excellent bibliography. S is an advanced undergraduate textbook focusing more on theoretical political science. B provides an excellent and accessible treatment of the political agency model. W & W is a new handbook for the field and contains 59 distinct essays on various parts of the literature.

### **GRADING**

There will be an in-class mid-term exam and a final exam. Both exams will be closed book. Problem sets will also be provided. On the exams, you are responsible for the material covered in lectures and problem sets, so it is important that you attend lectures and do the problem sets.

## **COURSE OUTLINE**

The following outline is tentative. Coverage of topics will be adjusted in light of time constraints, class interests, and prior class exposure to the material.

### **I. ECONOMIC THEORIES OF POLITICAL BEHAVIOR**

We review economic perspectives on the behavior of the key actors in the political arena: voters, candidates, legislatures, political parties, interest groups, and the media.

#### **I.1 Voter Behavior**

We discuss voter turnout, voting in multi-candidate elections, and voter information.

#### **I.2 Candidate Behavior**

We discuss candidate competition, candidate entry, and candidate policy choice in light of re-election concerns. Specifically, we cover models of two candidate electoral competition, the citizen-candidate model, and political agency models.

#### **I.3 Legislatures**

We discuss how legislatures make decisions. Specifically, we discuss Condorcet winners, ideological vs distributive issues, and legislative bargaining.

#### **I.4 Political Parties**

We discuss the role played by political parties, focusing on party primaries and the role of the party in the legislature.

#### **I.5 Interest Groups**

We discuss how interest groups form and how they influence policy-making via lobbying and campaign contributions.

#### **I.6 Media**

We discuss the role the media plays in policy determination.

### **II. VOTING RULES AND ELECTORAL SYSTEMS**

We discuss alternative ways in which groups may rank social alternatives and different systems for electing legislatures. Some general results concerning social choice problems are reviewed.

#### **II.1 Voting Rules**

We identify alternative voting rules and explain why they give rise to different outcomes.

#### **II.2 Arrow's Impossibility Theorem and the Gibbard-Satterthwaite Theorem**

We review two famous general results concerning the non-existence of voting rules with desirable properties.

#### **II.3 Electoral Systems**

We discuss alternative systems used for electing legislatures.

### **III. POLITICAL DISTORTIONS**

We discuss how the policies that emerge from political decision-making can be expected to differ from those that would be chosen by the benevolent governments from economics textbooks.

### **III.1 Socially Optimal Policies**

We briefly review the textbook theory of how governments should choose policies.

### **III.2 Politics and Equity**

We review different models of political income redistribution and discuss ways in which politically-determined policies may violate standard notions of equity.

### **III.3 Politics and Efficiency**

We discuss reasons why politically-determined policies may be inefficient. We focus primarily on inefficiencies stemming from reputational concerns and lack of commitment.

### **III.4 Implications for the Role of Government**

We discuss the implications of political distortions for the role of government.

## **IV. CONTEMPORARY POLITICAL ISSUES**

We discuss economic perspectives on a number of contemporary political issues.

### **IV.1 Districting**

We consider the problem of districting. We discuss how to measure the impact of different districting plans. We also discuss gerrymandering and socially optimal districting.

### **IV.2 Citizens' Initiatives**

In some U.S. states, citizens can place legislation directly on the ballot via citizens' initiatives. We discuss the pros and cons of such initiatives.

### **IV.3 Campaign Finance Policy**

We discuss the optimal regulation of campaign giving and the case for public financing of campaigns.

### **IV.4 Fiscal Policy and Fiscal Restraints**

We review political economy models of fiscal policy and consider the desirability of restraining government's ability to tax, spend, and borrow via constitutional fiscal restraints, such as balanced budget rules.

### **IV.5 Term Limits**

We discuss the pros and cons of term limits for elected representatives.

### **IV.6 Bureaucrats or Politicians**

An important issue concerning public officials concerns their method of selection – elected or appointed. We discuss this issue from a welfare perspective.

### **IV.7 Electing the President**

We discuss some controversies concerning the mechanism for electing the U.S. president. Specifically, we focus on the sequential timing of presidential primaries and the electoral college.

### **IV.8 Federalism**

We discuss the optimal assignment of policy responsibility between local and central governments.

### **IV.9 Electoral Quotas**

We discuss ethnic and gender issues in representation, focusing on the ways in which appropriate representation might be achieved.

### **IV.10 Political Borders**

We discuss the formation of political jurisdictions.

## READINGS

### I.1 Voter Behavior

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Gerber, A. and D. Green, "The Effect of Canvassing, Telephone Calls and Direct Mail on Voter Turnout: A Field Experiment," *American Journal of Political Science*, 2000.

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Myatt, D., "On the Theory of Strategic Voting," *Review of Economic Studies*, 2007.

Palfrey, T. and H. Rosenthal, "Voter Participation and Strategic Uncertainty," *American Political Science Review*, 1985.

Shachar, R. and B. Nalebuff, "Follow the Leader: Theory and Evidence on Political Participation," *American Economic Review*, 1999.

## **I.2 Candidate Behavior**

Ansolabehere, S., "Voters, Candidates, and Parties," Ch 2 in W & W.

Banks, J. and R. Sundaram, "Optimal Retention in Agency Problems," *Journal of Economic Theory*, 1998.

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Ferreira, F. and J. Gyourko, "Do Political Parties Matter? Evidence from U.S. Cities," *Quarterly Journal of Economics*, 2009.

Gerber, E. and J. Lewis, "Beyond the Median: Voter Preferences, District Heterogeneity, and Political Representation," *Journal of Political Economy*, 2004.

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## I.6 The Media

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S, Chs 6 & 7

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