Course description. This is the first quarter of the three-quarter sequence in Political Economy. In this course, we will be examining the political and institutional determinants of macroeconomic policies. Our aim is to gain some insight into how we can understand observed policies. While the approach we adopt borrows from political science in studying collective choice and political institutions, it is deeply rooted in economics in its focus on optimizing behavior by policy makers and private agents.

We start with a discussion of how a lack of credibility (or an inability of policy makers to commit) can impose costly constraints on policy, and how institutions might be designed to address this problem. We then turn our focus to the political determinants of policy formation in modern democracies, asking the following sorts of questions: how does electoral competition shape redistribution programs; how does the conflict of interest between policy makers/politicians and the general public shape public policy and how does that influence depend on particular institutions in place; how do specialized interests influence economic policy; and, how do institutions influence dynamic policies (e.g., public debt and public investment) and growth.

Course requirements. Students should complete a written project—either a proposal for an original research paper or a critical survey of the relevant literature that goes beyond what we cover in lecture, identifying an area for further study—and to present this work as it progresses throughout quarter. Details will follow.

Readings. The course draws largely from the following two books:


Students are strongly encourage to read also the original articles summarized in the text. Additional suggested readings are provided at the end of this syllabus.

**Course outline.** Topics and core readings are as follows.

1 **Introduction.**
   *Topics*: Introduction; motivation.
   *Readings*: Persson and Tabellini, chapter 1

2 **Credibility constraints in monetary policy.**
   *Topics*: Inflationary bias and institutions.
   *Readings*: Persson and Tabellini, chapters 15, 17.

3 **Credibility constraints in fiscal policy.**
   *Topics*: Capital vs. labor-income taxation and institutions.
   *Readings*: Persson and Tabellini, chapters 11, 12.

4 **Electoral competition and the size of the welfare state.**
   *Topics*: Redistributive politics and electoral rules.
   *Readings*: Persson and Tabellini, chapters 3, 6, and 8.

5 **Agency.**
   *Topics*: Accountability, career concerns and political institutions.
   *Readings*: Persson and Tabellini, chapters 4 and 9.

6 **Special interest politics.**
   *Topics*: Legislative bargaining and lobbying.

7 **Dynamic policies.**
   *Topics*: Public debt, investment and economic growth.

8 **Development.**
   *Topics*: State capacity, political violence, and political reform.
   *Readings*: Besley and Persson.
Additional readings.

Books.


Recent articles and working papers.


