

TOPICS IN POLITICAL ECONOMY (14.29)

Fall, 2000

Mondays and Wednesdays from 10:30 a.m. to 12:00 in Room E51-061

- **Instructor**

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- **Course description**

This course is an introduction to political economy. It is divided into three independent parts. Part I addresses the question of decision-making procedures for collective choices and investigates specific real-world institutions, in particular the voting mechanism. Part II reviews some of the recent literature about inequality and redistribution. Part III is more game-theoretic. It deals with uncertainty, information aggregation and belief formation, with applications to inequality and redistribution.

- **Material**

Handouts are going to be given in class. Reading the papers of the course package (available from Copy Tech in the basement of E52) **is not** a substitute for class attendance.

- **Requirements**

For each of the three parts of the class, there will be an assignment and an exam. Assignments are going to be given around the middle of each part, and due a week later. Exams are going to be given at the end of each part. The last exam (for part III) is going to take place on Wednesday, December 8, 2000.

- **Grading**

The three assignments and the three exams all count equally for the final grade.

- **Syllabus**

PART I - POLITICAL INSTITUTIONS AND PUBLIC CHOICE

1. Voting and other institutions

Sen, A., "Social Choice Theory," in *Handbook of Mathematical Economics*, K. Arrow and M. Intriligator eds. (Amsterdam: North-Holland, 1986) Chapter 22, 1073-1181 (3).

An application to the comparison of institutions in 18th century England and France:

Rosenthal, J.-L., *The fruits of revolution: Property rights, litigation, and French agriculture* (Cambridge: Cambridge University Press, 1992), Chapter 9, 149-169.

2. Fairness

The models studied in section 1/ lead to the conclusion that it is hard to define general rules for making collective choices. Is it easier to define the desirable properties of collective decisions, rather than the political processes leading to them? The answer is negative in general:

Varian, H. (1974), "Equity, envy and efficiency," *Journal of Economic Theory*, 9 (1) 63-91.

3. Models of the political process: should we expect efficient outcomes?

Meltzer, A., and S. Richard (1981), "A Rational Theory of the Size of Government," *Journal of Political Economy*, 89, 5 914-927.

<http://www.jstor.org/cgi-bin/jstor/listjournal>

Myerson, R. (1993), "Incentives to Cultivate Favored Minorities under Alternative Electoral Systems," *American Political Science Review* 87, 856-869.

Dixit, A. and J. Londregan (1995), "Redistributive Politics and Economic Efficiency," *American Political Science Review* 89, 4 856-866. <http://www.jstor.org/cgi-bin/jstor/listjournal>

Saint-Paul G. (1993), "On the Political Economy of Labor Market Flexibility," *NBER Macroeconomics Annual 1993*, Blanchard, O. and S. Fischer, eds. (Cambridge: MIT Press), 151-181
<http://www.jstor.org/cgi-bin/jstor/listjournal>

Fernandez, R. and D. Rodrik (1991), "Resistance to Reform: Status Quo Bias in the Presence of Individual Specific Uncertainty," *American Economic Review*, 81 (5), 1145-1155.
<http://www.jstor.org/cgi-bin/jstor/listjournal>

4. What distinguishes the government from other organizations?

Hart O. A. Shleifer and R. Vishny (1997) "The Proper Scope of Government: Theory and an

PART II - INEQUALITY AND REDISTRIBUTION

1. General facts.

How does one measure inequality?

How did inequality and redistribution evolve over time and across countries?

Kuznets, S. (1955), "Economic Growth And Income Inequality," *American Economic Review* (45), 1-28. <http://www.jstor.org/cgi-bin/jstor/listjournal>

Gottschalk, P. (1993), "Changes In Inequality of Family Income In Seven Industrialized Countries," *American Economic Review* 83 (2), 136-142.
<http://www.jstor.org/cgi-bin/jstor/listjournal>

Katz, L., G. Loveman, D. Blanchflower (1995) "A Comparison Of Changes In The Structure Of Wages In Four OECD Countries," in *Differences and Changes in Wage Structures*, R. Freeman and L. Katz editors, Chicago: University of Chicago Press, 25-65.

Lindert, P. and J. Williamson (1985), "Growth, Equality And History," *Explorations in Economic History* (22), 341-377.

2. The labor-capital conflict. Is wealth inequality the main thing to look at?

The classical growth model revisited:

Stiglitz, J. (1969), "Distribution Of Income And Wealth Among Individuals," *Econometrica* 37 (3), 382-397. <http://www.jstor.org/cgi-bin/jstor/listjournal>

The theory of imperfect credit markets:

Banerjee, A. and A. Newman (1993), "Occupational Choice and the Process of Development," *Journal of Political Economy* 101 (2), 274-298. <http://www.jstor.org/cgi-bin/jstor/listjournal>

Trade unions, bargaining and competition:

Spector, D. (2000), "Competition and the Capital-Labor Conflict," mimeo MIT (*handed in class*).

3. Human capital and wages

Kremer, M. and E. Maskin (1996), "Wage Inequality and Segregation by Skill," (*handed in class*).

4. Trade

Spector, D. (2000), "Is it possible to redistribute the Gains from Trade using Income Taxation?", forthcoming, *Journal of International Economics* (*handed in class*).

5. The political economy of inequality and redistribution

Bénabou, R., "Inequality and Growth," *NBER macroeconomics annual 1996*, Bernanke, B and J. Rotemberg eds. (Cambridge: MIT Press, 1996), 11-74. <http://papers.nber.org/papers/W5658.pdf>

PART III - INFORMATION AGGREGATION, COMMUNICATION, AND COLLECTIVE CHOICE

1. Theory of pure communication

Crawford, V. and J. Sobel, (1982), "Strategic Information Transmission," *Econometrica* (50), 1431-1451. <http://www.jstor.org/cgi-bin/jstor/listjournal>

2. Applications

Farrell, J. (1987), "Cheap Talk, Coordination, and Entry," *Rand Journal of Economics*, 18 (1), 34-39, Spring 1987.

Feddersen, T. and W. Pesendorfer (1997), "Voting Behavior and Information Aggregation in Elections with Private Information," *Econometrica* 65 (5), 1029-58.

Spector, D. (2000), "Rational Debate and One-Dimensional Conflict," *Quarterly Journal of Economics* 115 (1), 181-200.

3. Beliefs and inequality

Piketty, T. (1995), "Social Mobility and Redistributive Politics," *Quarterly Journal of Economics* 110 (3), 551-584.

Robinson, J. (1996), "Dynamics of Fertility and the Distribution of Income," *Journal of Human Capital*