

Economics 668 – Spring 2023

Political Economics: Collective Decisions and Individual Values

Instructor	Arjada Bardhi
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Class meetings	WF 3:30 - 4:45 PM at Perkins LINK 071 (Classroom 5)
Office hours	Wednesdays, 10 AM - noon, SocSci 223 / Zoom (sign-up through Sakai)

Course description

This course offers a rigorous introduction to models of collective decision making. The first part of the course surveys classic results in social choice theory: How can a collective of diverse individuals choose a winning outcome from a set of options? Is a collective preference ever coherent? Are certain voting procedures superior to others? The second part of the course turns to models of electoral competition, political accountability, and political influence (such as lobbying, agenda setting, and vote buying). How do politicians craft platforms? Can citizens hold elected politicians accountable? Should we worry about the influence of special interests in politics? The last part of the course focuses on (mis)information in collective decision processes. Do mass elections successfully aggregate dispersed information? What are the electoral effects of media bias? How do politicians persuade? Though the primary focus of the course is theoretical, we will also survey key empirical work related to these models.

References

Lecture slides, recordings, and all reading materials will be posted on Sakai. The class material will be based on select chapters of the references listed below, as well as journal articles, literature surveys, and non-academic sources. Shepsle (2010), denoted with (*) below, will serve as a fun and concise read for the first part of our course, although many of the arguments in the lecture slides will be discussed more formally.

- *Analyzing Politics: Rationality, Behavior, and Institutions*, 2nd ed., Kenneth A. Shepsle, W. W. Norton & Company, 2010. (*)
- *The Arrow Impossibility Theorem*, Eric Maskin and Amartya Sen, Columbia University Press, 2014.

- *Perspectives on Positive Political Economy*, James E. Alt and Kenneth A. Shepsle, Cambridge University Press, 1990.
- *Principled Agents? The Political Economy of Good Government*, Timothy Besley, Oxford University Press, 2006.

Prerequisites: Econ 601 is required. Econ 620 is strongly recommended for students who are taking this as a capstone course.

Grading policy

Evaluation is based on two problem sets (10 %), a paper summary (20 %), a midterm exam (30%), and either a final research paper or a final exam (40%). Problem sets will be posted a week prior to their due date. Students will be assigned to groups of 3-4 students to work on and submit answers to the problem sets. The group allocation will be randomized for each problem set. The midterm exam will be an in-class exam. The final exam will be take-home and it will take place on May 1 at 9am - noon.

Students will read a published paper on topics related to those discussed in class and write a 5-7 page summary explaining: (1) the paper's main insight (1/2 page), (2) the model (1-2 page), (3) one or two main formal results (1-2 pages), (4) the economic intuition behind the results (1 page), and (4) a discussion of the paper's weaknesses (1 page). A list of papers that the students can choose from will be posted later in the course.

Students who are taking this course as a capstone course are required to submit a final 10-15 page research paper, which will build on the literature reviewed in the paper summary. The research paper should at a minimum consist of (i) a clear research question, (ii) a theoretical model, (iii) a literature review, and (iv) a coherent (though not necessarily complete) set of interpretable results. Students who are not taking this as a capstone course will have to take the final exam.

Tentative schedule of topics

Week 1: Introduction to political economics and the course (Chapter 2)

Jan 13: Refresher on the rationality model

Week 2: Fundamentals of social choice theory (Chapter 3-4)

Jan 18: Preference aggregation, simple majority rule, Condorcet winner, Condorcet paradox

Jan 20: May's Theorem, Arrow's Impossibility Theorem

Week 3: Closer look into Arrow's Impossibility Theorem

Jan 25: Three proofs of Arrow's Impossibility Theorem (Geanakoplos, *Economic Theory*, 2005)

Jan 27: From impossibility to possibility results (Sen, *American Economic Review*, 1999)

Week 4: Spatial voting and the Hotelling-Downs model of spatial elections (Chapter 5)

Feb 1: Spatial formulation, Black's Median Voter Theorem, McKelvey's Chaos Theorem

Feb 3: Hotelling-Downs model of spatial elections, spatial models of legislatures

Week 5: Strategic voting and Gibbard-Satterthwaite Theorem (Chapter 6)

Feb 8: Strategic voting, sophisticated voting

Feb 10: Gibbard-Satterthwaite Theorem

Problem set 1 due on February 10 at the beginning of class.

Week 6: Voting rules and electoral systems (Chapter 7)

Feb 15: Voting methods, Borda count, plurality system, storable votes, quadratic voting

Feb 17: **Midterm exam**

Week 7: Models of electoral competition

Feb 22: Competition in representative democracies

Feb 24: Political motivations, signaling character and identity in electoral competition

Week 8: Citizen candidates and businessman candidates

March 1: Osborne and Slivinski (*Quarterly Journal of Economics*, 1996), Gehlbach, Sonin and Zhuravskaya (*American Journal of Political Science*, 2010)

March 3: Review / catch-up.

Week 9: Political agency and accountability

March 8: Electoral accountability, retrospective voting, term limits, separation of powers

March 10: The politician and the judge, Maskin and Tirole (*American Economic Review*, 2004)

Spring break March 10-20.

Week 10: Lobbying, vote-buying, and campaign contributions

March 22: Special interest politics and campaign giving, political influence

March 24: Equilibrium in the market for votes

Problem set 2 due on March 24 at the beginning of class.

Week 11: Information aggregation and the swing voter's curse

March 29: The swing voter's curse

March 31: Information aggregation and informative voting in elections, rational ignorance

Paper summary due on March 31 at the beginning of class.

Week 12: Persuasion in politics

April 5: Voter persuasion, persuasion through social networks

April 7: Media bias, the market for news, telecracies

Week 13: Power, coercion, and legislative bargaining (Chapter 12)

April 12: Power in dyads and triads

April 14: Bargaining over public goods

Week 14: Participatory democracy: lottocracies, minipublics, and referenda

April 19: Osborne, Rosenthal, and Turner (*American Economic Review*, 2000)

April 21: Matsusaka (*Journal of Economic Perspectives*, 2005), minipublics and lottocracies

Final exam on May 1.