## Economics of Politics

## Introduction

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## Course Overview

- ▶ This course will cover some recent developments in Political Economics.
- ▶ What is Political Economics?
    - ▶ A recently-growing field in applied economics that studies political economic issues using economic theory, game theory, and econometrics.
- ▶ What are the aims of Political Economics?
    - ▶ Explaining the political-economic reasons for the choice of economic policies
    - ▶ Understanding the roles of institutions such as elections, constitutions, parliaments, interest groups, fiscal federalism, etc.
    - ▶ Constructing rules and systems that can work well in political-economic environment

**Why is Political Economics important?**

- ▶ Traditional economics (e.g. welfare economics and public economics) has not paid much attention to politics when economic policies are chosen and has provided policy recommendations only from economic point of view.

- ▶ In some cases, such economists' recommendations turn out not only unrealistic or infeasible in practice, but also undesirable.

- ▶ Why? Because their analyses do not take account of the incentives of political actors such as politicians, bureaucrats, and voters, or the political constraints that face policy choices.

## Example: price support vs. lump-sum subsidy

- Consider a market for an agricultural product.
- Currently, the government has introduced a price support system in which the government purchases it from the producers at the price of $p_2$ and sell it to consumers at $p_1$.
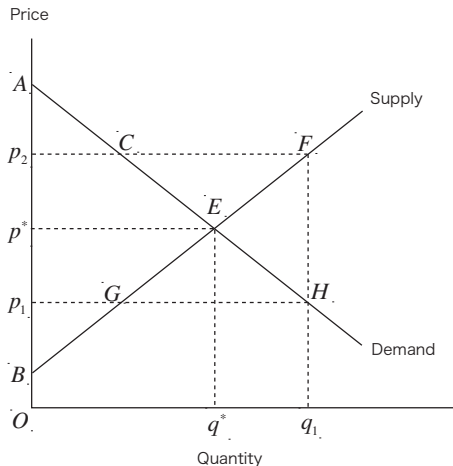
**Government failure?**

- ▶ Many economists argue that such a system is inefficient and should be altered into a system of lump-sum subsidy, in which the price is determined at $p^*$ without government intervention.
    - ▶ All the government has to do is to give a lump-sum subsidy to the producers to guarantee the same income as before. This reform is a Pareto improvement.
- ▶ In reality, it is rare for such a recommendation to be carried out.
    - ▶ Is this because government is stupid, or do the economists miss anything?
- ▶ Dispute over government failure
    - ▶ Stupid government will be removed from office through political competition, and government failure does not occur in the long run.
    - ▶ "What is" is efficient in political fields as it is in the markets.

## Prerequisite

- This course is basically for graduate students.
- The participants are supposed to have already learned
    - undergraduate-level microeconomics (including mathematical treatments)
    - undergraduate-level game theory (up to the folk theorem in repeated games with complete information)

    and have a working knowledge of calculus and probability.
- Undergraduate students who think themselves meeting those prerequisites are of course welcome.
- No time will be spent for reviewing the prerequisite levels of microeconomics and game theory.

**Books related to this course**

- No textbook is specified in this course. Some (but not all) slide files will be provided on my website.
  - http://www.f.waseda.jp/h.konishi/cn3/politicaleconomics.html
- The lecture in this course will be related to the following books;
  - Persson, T. and Tabellini, G., *Political Economics*, MIT Press, 2000.
  - Drazen, A., *Political Economy in Macroeconomics*, Princeton University Press, 2001
  - Grossman, G. and Helpman, E., *Special Interest Politics*, 2002, MIT Press.
- For Japanese students, the following book will be useful for understanding this lecture;
  - **小西秀樹,『公共選択の経済分析』，東京大学出版会，2009.**

## Requirements and Evaluation

- ▶ Requirements
    - ▶ For students who wish to survive in this profession in the future:
        - ▶ Read all the papers in the reading list (now being prepaired)
        - ▶ Read Persson and Tabellini's textbook from cover to cover and try to solve the exercises in each chapter (a solution manual is on sale, though all the solutions being not necessarily correct)
        - ▶ Take Prof. Asako's lecture on Public Choice in the Fall Semester
    - ▶ For students who only intend to obtain M.A. in Waseda:
        - ▶ Follow my lecture, sometimes consulting the papers in the reading lists
        - ▶ Review game theory. Gibbons' texbook will be useful.
- ▶ Evaluation
    - ▶ Problem sets (30%)
        - ▶ At least twice, perhaps much more, over the course of the semester
    - ▶ Final exam (70%)