Political Economics, Winter 2023

Instructor   Bruno Strulovici
          b-strulovici@northwestern.edu
          Office hours: After each class until 4pm. Fridays 4pm to 5pm (zoom).

Teaching Assistant Diego Huerta
          diegohuerta2024@u.northwestern.edu
          Office hours: Wednesdays 4pm-6pm in KGH 3496

Lectures   Mondays and Wednesdays, 2pm-3:20pm, Tech M152

Discussion sessions Fridays, 2pm-2:50pm, Tech M152

Course Description: This course provides a rigorous analysis of key aspects of collective decision making and institutional design. The first part concerns *social choice:* How can individual preferences be aggregated into collective preferences and decisions? Which voting rules are desirable? The second part covers the interplay between preferences, incentives, and policy outcomes. The last part applies the concepts and techniques to various policy issues: redistribution and inequality, the comparison of collective decision rules such as representative and direct democracy based on referendum and propositions, and institutional design.

Prerequisites: Economics 281, 310-1, 310-2.

Evaluation: 6 problem sets (25% of the grade), two in-class exams (25% each of the final grade), and a short final project (remaining 25%).

Problem sets are due by 5pm on Thursdays (Diego's mailbox or online). The worst problem set grade is dropped from the average.

First Exam: January, 30
Second Exam: March, 6
Project due date: March, 15

Exams are open notes but no electronic devices may be used.
[Any student who misses a midterm without accepted justification will receive no credit for the corresponding exam. Medical reasons require written confirmation from the University health services or your doctor. Non-medical reasons require a written excuse from official of the University (e.g., an official from the WCAS Dean's Office). A makeup for the midterm or final will be permitted only if there is a good reason for missing the exam. Suspicion of academic dishonesty will be referred immediately to the Dean's Office.]

Lecture slides and other reading material will be posted on Canvas

Textbook (recommended): *Analyzing Politics, Rationality, Behavior and Institutions* by Shepsle and Bonchek (Norton)

Suggested readings

 Political Economics by Persson and Tabellini (MIT Press)
 Principled Agents? by T. Besley (Oxford University Press)
 Models in Political Economy by M. Osborne. Free online
 Social Mechanisms and Political Economy by D. Levine, A. Mattozzi, and S. Modica. Free online

Course Overview

1. Introduction (*Analyzing Politics, Ch. 1*)
   - Overview of the key questions

2. Social Choice Theory (*Analyzing Politics, Ch. 4*)
   - Definition of individual and social preferences
   - Condorcet winner, Condorcet cycles
   - Formal concepts of fairness, efficiency, and freedom
   - Impossibility theorems
   - Single-peakedness

3. Strategic Behavior and Manipulation (*Analyzing Politics, Ch. 6*)

4. Allocation Mechanisms (*Lecture Notes*)
   - Two-sided Matching, Gale-Shapley Algorithm
   - One-sided mechanisms

5. Voting Methods (*Analyzing Politics, Ch. 7*)

6. Electoral Competition (*Lecture Notes*)
   - Downs model
   - Probabilistic voting
   - Partisan politicians

7. Political Agency *(Lecture Notes)*
   - Political moral hazard and corruption
   - Political competence and adverse selection
   - Lobbying and campaign contributions

8. Voter Behavior *(Lecture Notes)*
   - Voter turnout, pivotality, and the paradox voting
   - Social media, fake news
   - Protests

9. Institutional Economics *(Lecture Notes)*
   - Direct, representative, and hybrid democracies
   - Government accountability and separation of powers
   - Institution enforcement
   - Justice and inequality

10. Political and Public Economics
    - Politics of Healthcare
    - Politics of Financial Institutions
    - Redistribution through Allocation