

GV 225: PUBLIC CHOICE AND POLITICS

2007-08

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 Dr Rafael Hortala-Vallve
 Dr Valentino Larcinese
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Class Teachers: **Mr Fernando Aragon**
 Mr Mike Seiferling

Public choice theory seeks to account for public policy formation in democratic societies: this requires studying the behaviour of individuals in non-market environments. The course covers the main tools for the study of public choice (rational decision-making theory, game theory, social choice theory) and a number of both theoretical and applied topics. It focuses on the study of political institutions in modern democracies.

There will be a weekly one hour lecture during Michaelmas and Lent Terms on Thursdays from 4.00-5.00. Weekly one-hour classes are associated with these lectures. Students will be expected to make presentations at these classes. Students must register for classes at the beginning of term but **classes start in the second week of term**. Classes on each lecture topic will thus take place two weeks after the associated lecture.

Evaluation for the course is as follows:

BSc Government, BSc Government and Economics and other full year students (taking the exam):

- A three-hour unseen examination, which accounts for 75% of total marks and is taken in late May or early June. The exam consists of two parts. The first part consists of a compulsory question. In addition, students must answer two questions from 10 asked in the second part. Each question receives the same weight.
- A required essay (not exceeding 2,500 words, including notes and bibliography) on a topic agreed between the student and their class teacher which accounts for 25% of total marks. Students should consult their class teachers by Thursday of week 4 of Lent Term to formulate preliminary ideas and be given suggested additional reading. They must then return with a defined topic and a precise essay question to be agreed with their class teacher by Thursday of week 8 of Lent Term. The completed essay must be handed in to the department office by the end of the first week of summer term, with two copies of the cover sheet filled in. This essay should have your exam number and not your name on the

cover sheet. Essays handed in late will be penalized or may not be accepted at all according to School rules.

In addition full year students should complete two coursework essays (of around 1500 words each) per term, one of which may be on an assigned presentation and the other selected from any topic covered by the course in consultation with the class teacher. Deadlines for the delivery of coursework essays in each term are weeks 5 and 9. Arrangements for handing in these essays will be made by the class teacher concerned.

Single term students:

- Attendance and active participation in classes.
- A presentation on a topic assigned, which must also be written up as an essay (around 1500 words). And
- One other essay on any topic from that term's reading list.

Both essays are assessed by that term's teachers. Deadlines for the delivery of essays are the Friday of 5th Week and 9th Week of term.

Full year students not taking the exam

In special cases it may be feasible for full year students whose university does not require them to take LSE exams to be assessed on a similar basis to single term students, plus an additional essay to cover work in the Summer Term. Please see Dr Larcinese if this may apply to you.

COURSE AIMS AND OBJECTIVES

By the end of the course you should:

1. Be able to demonstrate a working knowledge of public choice theory - its assumptions, 'tools' and limitations.
2. Be able to critically evaluate and apply the core arguments of public choice theory, the principles of spatial analysis, and game theory.
3. Be able to apply these arguments and principles to political situations, institutions and complex political processes in liberal democracies.

Introductory Reading

No single text is sufficient for the whole course. The best introductory book covering many of the topics is Shepsle and Bonchek (1997). Mueller (2003) is an intermediate level text, which is also quite comprehensive in its coverage. It is, however, more of a reference text than an introduction. Consult it to 'dip into' each topic. Dunleavy (1991) is good for selected topics. Ordeshook (1986) covers social choice, spatial modelling, and game theory at an intermediate level.

There are a number of textbooks which you may find useful for game theory. Morrow (1994) is a game theory text aimed at political scientists and covers most of the topics. Osborne (2004) also includes many political science applications.

Hinich and Munger (1997) offer an excellent introduction to spatial models.

Recommended Texts

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|-----------------------------------|---|
| Kenneth Shepsle
& Mark Bonchek | <u>Analyzing Politics</u> London: W.W. Norton (1997) |
| D.C. Mueller | <u>Public Choice III</u> , Cambridge: Cambridge UP (2003). |
| P. Dunleavy | <u>Democracy, Bureaucracy and Public Choice</u> , Hemel Hempstead: Harvester-Wheatsheaf (1991). |
| P. Ordeshook | <u>Game Theory and Political Theory</u> , Cambridge, Cambridge UP (1986). |
| D. Morrow | <u>Game Theory for Political Scientists</u> , Princeton: Princeton University Press (1994). |
| M. Osborne | <u>Introduction to Game Theory</u> , Oxford: Oxford University Press (2004). |

Other useful Books for Beginners

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|----------------|---|
| Michael Laver | <u>Private Desires and Political Action</u> , London: Sage (1997). Introductory, lively, not comprehensive. Good introductory section on collective action. |
| S. Heap et al. | <u>The Theory of Choice</u> Oxford: Blackwell (1992). Very good for selected topics. |
| P. A. McNutt | <u>The Economics of Public Choice</u> , Aldershot: Edward Elgar (2002). Okay for selected topics, but not comprehensive for this course. |

Advanced text books (which some might enjoy):

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|--------------|--|
| Allan Drazen | <u>Political Economy in Macroeconomics</u> (Princeton, 2000) – excellent background, more advanced |
|--------------|--|

Torsten Persson & Guido Tabellini Political Economics: Explaining Economic Policy (MIT Press, 2000) – pithy, tough, for those with a background in economics and interested in economic policy

Classics:

A. Downs An Economic Theory of Democracy (New York: Harper and Row, 1957).

M. Olson The Logic of Collective Action (Cambridge, Mass: Harvard Univ Press, 1965).

W. Niskanen Bureaucracy and Representative Government (Chicago: Aldine-Atherton, 1971), republished as Bureaucracy and Public Economics (Edward Elgar, 1995)

or his Bureaucracy: Servant of Master? (London: institute of Economic Affairs, 1973)

For purely introductory reading, students should also consult the relevant entry in The New Palgrave Dictionary of Economics.

Journals which are especially useful for this course are Journal of Theoretical Politics, Public Choice, American Political Science Review, American Journal of Political Science, Journal of Politics, Quarterly Journal of Political Science, British Journal of Political Science. Relevant articles can often be found on economics journals too, in particular Journal of Political Economy, Quarterly Journal of Economics, American Economic Review, Journal of Public Economics.

It cannot be sufficiently emphasised that reading lists offer only a flavour of the available literature. If a particular book is unavailable another (probably equally good one) can be found to take its place.

TOPICS COVERED

Classes start **WEEK 2** of Michaelmas term. A class is associated with each lecture topic, and runs one week later. Three revisions sessions are scheduled for the summer term.

Lecture	Topic	Lecturer
Michaelmas term		
1	Foundations of Public Choice	VL
2	Preference Aggregation and Manipulation	VL
3	Game theory I (static game of perfect information)	TD
4	Game theory II (repeated and dynamic games)	TD
5	Public goods and collective action	VL
6	Voting	VL
7	Electoral Competiton: the Downsian model	VL
8	Game theory III	TD
9	Beyond the Downsian model	VL
10	Redistribution and the welfare state	VL
Lent term		
11	Electoral Rules	VL
12	Voter Turnout	RH
13	Information and mass media	VL
14	Interest Groups and Lobbying	RH
15	Agenda-setting, gate-keeping and veto power	RH
16	Legislative Politics I: Coalition Formation	RH
17	Legislative Politics II: Legislative Organization	RH
18	Delegation and Oversight	RH
19	Bureaucracy	JW
20	Fiscal Policy	JW
Summer term		
RV1	Revision session: Game theory	TD
RV2	Revision session: Weeks 1-3, 6-7, 9-11, 13	VL
RV3	Revision session: Weeks 12, 14-20	RH/JW

Please note, past exam papers may be found on the public folders. This course and the exam do vary from year to year. Please bear this in mind when looking at exam papers from previous years.

FOUNDATIONS OF PUBLIC CHOICE: What is rational in rational choice?

- a) Does rational choice use a realistic account of human rationality? Does it matter?
- b) Is rationality a tautology?

Core readings:

- Sheplse & Bonchek Analyzing Politics, Ch. 2
- Mueller Public Choice III, Ch.1 .
- Allan Drazen Political Economy in Macroeconomics (Princeton, 2000), ch. 1
- J. Elster 'Introduction' to his Rational Choice, Oxford: Basil Blackwell (1986)

Further readings:

- A. Downs An Economic Theory of Democracy, ch 1, New York: Harper and Row (1957) (JF.1351.D75).
- K. Dowding 'Is it rational to vote? Five types of answer and a suggestion', British Journal of Politics and International Relations, Vol.7, No.3, pp. 442-59.
- J. Friedman 'Economic Approaches to Politics', in J. Friedman (ed.), The Rational Choice Controversy (New Haven: Yale University Press, 1996), originally published in Critical Review, Vol.9, No. 1-2
- G. Tsebelis 'In Defense of the Rational-Choice Approach', in G. Tsebelis, Nested Games (Los Angeles: UC Press, 1990)
- K. Dowding Rational Choice and Political Power, ch 2, Aldershot: Edward Elgar (1991) (JC.330.D74).
- D.P. Green & I. Shapiro Pathologies of Rational Choice Theory, Ch. 1 + 2, Yale University Press, 1992.
- P. Ordeshook Game Theory and Political Theory, Ch. 1, Cambridge: Cambridge University Press (1986)
- M. Blaug The Methodology of Economics, Cambridge: Cambridge

University Press (1986), Ch. 15

J. Aldrich 'Rational Choice and Turnout', American Journal of Political Science, Vol. 37 (1993), No. 1, pp. 246-78.

Week 2 Lecture

Week 3 Seminar

PREFERENCES AGGREGATION AND MANIPULATION

- a) What are the implications of Arrow's impossibility theorem for the study of politics?
- b) Are Arrow's requirements too strict for a democracy? Are all requirements equally important?

Core readings:

- Mueller Public Choice III, Ch. 24 (The Impossibility of a Social Ordering)
- K. Dowding 'Can Populism be defended?', Government and Opposition, Vol. 41 (2006), No. 3, pp. 327-346
- Shepsle & Bonchek Analyzing Politics, Ch. 4 (Spatial Models of Majority Rule), pp. 83-103
- W. Riker Liberalism against Populism, Prospect Heights: Waveland Press (1982), Ch. 5 (The Meaning of Social Choices)

Further readings:

- J. Bonner Introduction to the theory of social choice, The Johns Hopkins University Press (1986). Ch. 4
- G. Mackie Democracy Defended, Cambridge: Cambridge University Press (2003), Ch. 3
- Shepsle & Bonchek Analyzing Politics, Ch. 7 (Voting Methods and Electoral Systems)
- Hinich & Munger Analytical Politics, Ch. 5 (Social Choice)
- Miller, Grofman
Feld The Geometry of Majority Rule, Journal of Theoretical Politics, Vol. 1 (1989), No. 4, pp. 379-406
- Hannu Nurmi Voting Paradoxes and How to Deal with Them, Springer (1999)

Hannu Nurmi Rational Behaviour and the Design of Institutions, Cheltenham: Edward Elgar (1998)

Brian Barry &
Russell Hardin (eds) Rational Man and Irrational Society? An Introduction and Sourcebook,
Beverly Hills: Sage (1982)

Week 3 Lecture

Week 4 Class

GAME THEORY I
(see separate reading list)

Week 4 Lecture

Week 5 Class

GAME THEORY II
(see separate reading list)

Week 5 Lecture

Week 6 Class

PUBLIC GOODS AND COLLECTIVE ACTION

- a) What are public goods? Do they lead to special problems for collective action?
- b) How can the collective action problems be overcome? Give examples.

Core readings:

M. Olson The Logic of Collective Action, (especially pp. 1-52).

Sheplse & Bonchek Analyzing Politics, Ch. 9 (Collective Action) + 10 (Public Goods)

Mueller Public Choice III, Ch 2 (pp. 9-18 & 39-42)

K. Dowding Power, Buckingham: Open University Press, pp. 31-43

Further readings:

- Michael Laver Political Solutions to the Collective Action Problem, Political Studies 28 (1980), pp. 195-209
- M. Taylor & H. Ward Chickens, Whales and Lumpy Goods: Alternative Models of Public Goods Provision, Political Studies, Vol. 30 (1982), pp. 350-70
- P. Dunleavy Democracy, Bureaucracy and Public Choice, Ch. 2.
- R. Hardin Collective Action, Baltimore: John Hopkins University Press (1982).
- G. Marwell & P. Oliver The critical mass in collective action, Cambridge: Cambridge UP (1993)
- J. Estaban & D. Ray ‘Collective action and the Group Size Paradox’, American Political Science Review, Vol. 95 (2001), pp. 663-672
- M. Taylor The Possibility of Co-operation, Cambridge: Cambridge UP (1987)
- Richard Cornes & Todd Sandler The Theory of Externalities, Public Goods and Club Goods, Cambridge: Cambridge UP (1996)
- Todd Sandler Global Challenges, Cambridge: Cambridge University Press (1997)
- E. Ostrom Governing the Commons, Cambridge: Cambridge University Press (2000)

Week 6 Lecture

Week 7 Class

VOTING

(a) Consider three agents 1, 2, 3 with the following preferences over outcomes x, y, z :

- 1: $x > y > z$
- 2: $y > z > x$
- 3: $z > y > x$.

Are preferences single-peaked? Is there a Condorcet-winner? Now suppose that each agent reports her preferences (not just the preferred alternative) to a referee who then decides applying majority rule, and that if there is no winning option the status quo (z) wins. Has any agent an incentive to lie and report non-truthful preferences? What would happen then?

- (b) Consider an election with 3 players, 1, 2, and 3, and three alternatives, A,B, and C. Players vote simultaneously for one of the alternatives and abstention is not allowed. The status quo is A, which is selected if no alternative receives a majority, otherwise the alternative chosen is the one that obtains most votes. Payoff functions are:

$$\begin{aligned} u_1(A) &= u_2(B) = u_3(C) = 2 \\ u_1(B) &= u_2(C) = u_3(A) = 1 \\ u_1(C) &= u_2(A) = u_3(B) = 0 \end{aligned}$$

- Find all the Nash equilibria of this game. Note that the same outcome can be sustained by different strategy profiles.
- Use iterated deletion of weakly dominated strategies. What do you obtain?

Core readings:

Mueller, D Public Choice III, chapter 5 (in particular 5.2, 5.3, 5.4)

Shepsle & Bonchek Analyzing Politics, chapters 5 and 6.

Further readings:

Ordeshook, P.C. Game theory and political theory, chapters 2 and 6.

Hinich & Munger Analytical Politics, Ch. 2 (Model of Downs and Black)

Week 7 Lecture

Class Week 8

ELECTIONS AND PARTY COMPETITION: office-seeking candidates

(a) Consider the situation described in question (b) of week 6. What happens if there are two parties competing for office by proposing one of the alternatives to voters (assume parties can fully pre-commit to their announcements). Discuss your results.

(b) Consider a population of voters uniformly distributed from $x=0$ (extreme left) to $x=1$ (extreme right). Candidates offer a platform in the $[0,1]$ space to which they can pre-commit during the electoral campaign. Candidates get a payoff equal to 1 if they win the election (by plurality rule) and 0 if they don't. In the case of a tie, one of the winning candidates is randomly selected. Also, candidates on the same platform split the votes corresponding to that platform. Voters vote for the candidate which is closest to their ideological position.

- Find the Nash equilibrium with two candidates
- Find a Nash equilibrium with three candidates

(c) Can we explain the success of Blair in 1997 in terms of the median voter theorem?

Core readings:

- V.Larcinese Models of electoral competition, available on the public folders
- A. Downs An Economic Theory of Democracy Harper and Row (JF.1351.D75)

And any one (or all!) of the following:

- Mueller, D Public Choice III, chapter 11.
- P. Dunleavy Democracy, Bureaucracy and Public Choice, Ch. 4
- K. Shepsle and
M. Bonchek Analyzing Politics, ch 5 (pp 104-115)

Further readings

- Morrow Game theory for political scientists, pp. 104-111 [JA 73 M88]
- Ordeshook, P.C. Game theory and political theory, 4.6 and 4.7 [JA 73 061]

Week 8 Lecture

Week 9 Class

GAME THEORY III
(see separate reading list)

**ELECTIONS AND PARTY COMPETITION:
Beyond the Downsian model**

(a) Consider the situation described in question (b) of week 7. Now there are two candidates, one with utility function $-|x-0.3|$, the other with utility function $-|x-0.7|$. The timing is the following:

1. candidates announce platforms.
 2. voters observe the announcements and vote
 3. the winning candidate implements a policy in the space $[0,1]$.
 4. End of the game.
- Find the Nash equilibrium of this game.
 - Can 0.5 be an equilibrium if this game is repeated an infinite number of times?
 - If the sequence 1-4 is repeated twice (i.e. there are two elections), can 0.5 be an equilibrium in the first election?

(b) Can we explain the success of G.W.Bush in the 2004 US presidential election in terms of the Downsian model?

Core Readings

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|------------------------------|---|
| Mueller | <u>Public Choice III</u> , ch 12, 19. |
| A. Alesina
& H. Rosenthal | <u>Partisan Politics, Divided Government and the Economy</u> , Cambridge University Press, 1995, ch. 2. |
| V.Larcinese | <u>Models of electoral competition</u> , available on the public folder |

Further readings

See the bibliography in my survey paper

REDISTRIBUTION: Politics and the Welfare State

- (a) Why European countries tend to redistribute more than the United States?
- (b) How can Downsian models explain pension reforms?

Core Readings

V.Larcinese Voting over redistribution and the size of the welfare state, forthcoming *Political Studies*, available on the public folders

Further Readings

A. Meltzer
& S. Richards A rational theory of the size of government, *Journal of Political Economy*, 89, 914-927, 1981

J. Stiglitz Economics of the Public Sector, Norton & Company, 1988, chs. 1,2,6

J. Stiglitz Economics, Norton & Company, 1997, chs. 22, 23

J. Cullis
& P. Jones Public Finance and Public Choice, McGraw-Hill, chs. 9, 17.

K. Roberts Voting over income tax schedules, *Journal of Public Economics*, 8, 329-340, 1977.

ELECTORAL RULES AND PUBLIC POLICY

(a) Introducing a proportional electoral system in Britain would lead to an increase in the supply of public goods. Discuss.

(b) The electoral vote system for presidential election in the US creates an incentive to target small groups concentrated in marginal states rather than much larger groups dispersed in various non-marginal states. Discuss.

Core readings:

- | | |
|-------------|---|
| Mueller | <u>Public Choice III</u> , Ch 13 |
| G. Tsebelis | <u>Veto Players</u> , Chs. 3, 4, 5, 6. |
| A.K. Dixit | <u>The Making of Economic Policy</u> , Cambridge: MIT Press, 1996 |

Further readings:

- | | |
|---------------------------------------|---|
| Persson, T. &
Tabellini, G. | <u>Political Economics: Explaining Economic Policy</u> , Cambridge: MIT Press (2000), Ch. 9 +10. |
| Persson, T. &
Tabellini, G. | <u>The economic impact of constitutions</u> , Cambridge: MIT Press (2003) |
| Larcinese, V,
Rizzo, L., Testa, C. | Allocating the US Federal Budget to the States: the Impact of the President, <u>Journal of Politics</u> , May 2006. |
| Lijphart, A. | <u>Patterns of Democracy</u> , Yale UP (1999). |
| D. C. Mueller | <u>Constitutional Democracy</u> , Oxford: Oxford UP (1996). |

TURNOUT

- a) Explain the equation $PB + D > C$
- b) What can we learn from the empirical evidence on voter turnout?

Core readings:

Mueller	<u>Public Choice III</u> , Ch. 14 (The Paradox of Voting)
A. Downs	<u>An Economic Theory of Democracy</u> , Ch. 11-14, New York: Harper and Row (1957)
P Fiorina	<u>Perspectives on Public Choice</u> , Ch. 18, Cambridge University Press, ed DC Mueller (1997)

Further readings:

W Riker & P Ordeshook	‘A Theory of the Calculus of Voting’, <u>American Political Science Review</u> 62 (1968) pp. 25-42
J Ferejohn & P Fiorina	‘The Paradox of Not Voting: A Decision Theoretic Analysis’ <u>American Political Science Review</u> 68 (1974), pp. 525-36
P Fiorina	‘The Voting Decision: Instrumental and Expressive Aspects’, <u>Journal of Politics</u> 38 (1976), pp. 390-415
J Aldrich	‘Rational Choice and Turnout’, <u>American Journal of Political Science</u> 37 (1993), pp. 246-78
J Matsusaka	‘Explaining Voter Turnout Patterns: An Information theory’, <u>Public Choice</u> 84 (1995), pp. 91-117
T Feddersen & W Pesendorfer	‘Abstention in Elections with Asymmetric Information and Diverse Preferences’, <u>The American Political Science Review</u> 93 (1999), pp. 381-398
D Lassen	‘The Effect of Information on Voter Turnout: Evidence from a Natural Experiment’, <u>American Journal of Political Science</u> 49 (2005), pp. 103-118
T Palfrey & D Levine	‘The Paradox of Voter Participation: A Laboratory Study’, <u>The American Political Science Review</u> <i>forthcoming</i>

http://www.idea.int/elections/voter_turnout.cfm

INFORMATION: Elections and the Mass Media

- (a) What is “rational ignorance”?
- (b) What are the main methodological problems for researches that want to identify the impact of mass media on voting behaviour?

Core readings:

V. Larcinese	<u>Information, Elections and Public Policy</u> , available on public folders
L. Bartels	Message received: the political impact of media exposure, <u>American Political Science Review</u> , 87, 1993
J.G. Matsusaka	Explaining voter turnout patterns: an information theory, <u>Public Choice</u> , Vol. 84 (1995), pp. 91-117
V.Larcinese	Does Political Knowledge Increase Turnout? Evidence from the 1997 British General Election, forthcoming <u>Public Choice</u> , available on public folders

Further readings:

S. Ansolabehere <i>et al</i>	Mass media and elections: an overview, <u>American Politics Quarterly</u> , Vol. 19 (1991), No. 1, pp. 109-139
B. McNair	<u>An introduction to political communication</u> , London: Routledge (1995), Chs.1,2,3.
V.Larcinese	The Instrumental Voter Goes to the News-Agent: Information Acquisition, Marginality and Turnout, available on public folders
B. Newman (ed.)	<u>The Handbook of Political Marketing</u> , Thousand Oaks: Sage (1999)
D. Nimmo & K. Sanders (eds.)	<u>The Handbook of Political Communication</u> , Beverly Hill: Sage (1981)
J. Zaller	<u>The nature and origins of mass opinion</u> , Cambridge: Cambridge UP (1991)
J. Zaller	The myth of mass media effectiveness revived, in “ <u>Political persuasion</u>

and attitude change” (D. Mutz ed.), Ann Arbor: University of Michigan Press (1996)

A. Gerber
& D. Green

The effects of personal canvassing, telephone calls and direct mail on voter turnout: a field experiment, American Political Science Review, Vol. 94 (2000), pp. 653-664, 2000

Delli Carpini
& Keeter

What Americans Know About Politics and Why it Matters.

Week 14 Lecture

Week 15 Class

INTERESTS GROUPS: Role and Impact on Public Policy

- a) What aims does public choice theory attribute to interest groups?
- b) When and how do interest group influence public policy?
- c) What effects does interest group activity have?

Core readings:

G. Tullock

'The Costs of Special Privilege' in J. Alt & K. Shepsle (eds), Perspectives on Positive Political Economy, Cambridge: Cambridge UP (1990)

R. Hall & A.
Review,
Deardorff

'Lobbying as Legislative Subsidy', American Political Science Review, Vol. 100 (2006), No. 1., pp. 69-84

W. Mitchell

'Interest groups: economic perspectives and contributions', Journal of Theoretical Politics, Vol. 2 (1990), No.1, pp. 85-108

Further readings:

Mueller

Public Choice III, Ch. 20 (Interest Groups)

W. Mitchell &
M. Munger

'Economic theories of interest groups', American Journal of Political Science, Vol. 35 (1991), No. 2, pp. 512-46.

G. Grossman & E.
Helpman

Special Interest Politics, Cambridge: MIT Press (2001)

M. Olson

The Rise and Decline of Nations, New Haven: Yale Univ Press (1982)

C. Rowley et al. The Political Economy of Rent-Seeking, Boston: Kluwer (1988)

D. Austen-Smith & J. Wright ‘Counteractive Lobbying’, American Journal of Political Science, Vol. 38 (1994), No. 1., pp. 25-44

Week 15 Lecture

Week 16 Class

AGENDA-SETTING, GATE-KEEPING AND VETO POWER

a) Compare the effects of ex ante veto, ex post veto, and agenda-setting power.

b) What factors affect gridlock/policy stability?

Core readings:

M. Hinich & M. Munger Analytical Politics, Cambridge: CUP (1997), Ch. 2 + 3 (spatial model in one and more dimensions)

K. Krehbiel Pivotal Politics, Chicago: University of Chicago Press (1998), Ch. 2 (theory)

G. Tsebelis Veto Players, Princeton: Princeton UP (2002), Ch. 1 (individual veto players)

Further readings:

P. Moser The Political Economy of Democratic Institutions, Cheltenham: Elgar (2000)

K. Shepsle Institutional Arrangements and Equilibrium in Multidimensional Voting Models, American Journal of Political Science, Vol. 23 (1979), No. 1., pp. 27-59

K. Shepsle & B. Weingast The Institutional Foundations of Committee Power, American Political Science Review, Vol. 81 (1987), No. 1, pp. 85-104
Rosenthal, agenda-setting

T. Romer & H. Rosenthal Political resource allocation, controlled agenda, and the status quo, Public Choice, Vol. 33, pp. 27-43

Miller, Grofman
Feld The Geometry of Majority Rule, Journal of Theoretical Politics, Vol. 1
(1989) , No. 4, pp. 379-406

Week 16 lecture

Week 17 Class

LEGISLATIVE POLITICS I: Coalition Formation

- a) Contrast theories of coalition formation. What are the differences in terms of assumptions and predictions?
- b) Define and illustrate the concept of a strong and very strong Party.
- c) Explain how minority governments occur according to Laver and Shepsle.
- d) Can coalitions coalesce?

Core readings:

- M. Laver &
N. Schofield Multiparty Government: The Politics of Coalition in Europe, Ann Arbor:
University of Michigan Press (1998), Ch. 3 (What are the stakes) + 5
(Who gets in?)
- M. Laver &
K. Shepsle Making and Breaking Governments, Cambridge: Cambridge UP (1996)
Ch. 2-4 (government formation, government equilibrium)
- P. Dunleavy ‘Modelling Coalitions that Cannot Coalesce’, West European Politics,
Vol. 24 (2001), No. 1, pp. 1-26

Further readings:

- W. Riker The Theory of Political Coalitions, New Haven: Yale UP (1962)
- R. Axelrod Conflict of Interest, Chicago: Markham (1970)
- A. de Swaan Coalition Theories and Government Formation, Amsterdam: Elsevier
(1973)
- K. Dowding ‘Interpreting Formal Coalition Theory; in K. Dowding and D. King (eds)
Preferences, Institutions and Rational Choice (Clarendon Press, 1995)
- L. Martin &
R. Stevenson ‘Government Formation in Parliamentary Democracies’, American
Journal of Political Science, Vol. 45 (2001), pp. 33-50

- D. Baron ‘A spatial bargaining theory of government formation in parliamentary systems’, American Political Science Review, Vol. 85 (1991), No. 1, pp. 137-164
- M. Laver &
K. Shepsle Government Coalitions and Intraparty Politics, British Journal of Political Science, Vol. 20 (1990), No. 4., pp. 489-507

Week 17 Lecture

Week 18 Class

LEGISLATIVE POLITICS II: Legislative Organization

- a) Compare and illustrate the distributive, informational and partisan approaches to legislative committees. Are they mutually exclusive?
- b) How does the committee structure affect policy stability according to Shepsle?
- c) What is the role of the Speaker in the House of Representatives according to Cox and McCubbins?

Core readings:

- K. Shepsle &
B. Weingast Positive Theories of Congressional Institutions, Legislative Studies Quarterly, Vol. 19 (1994), pp. 149-79 (*reprinted in the volume edited by the authors of the same name*)
- K. Krehbiel Information and Legislative Organization, Ann Arbor: University of Michigan Press (1991), Ch. 3 (Informational Theories of Legislative Organization, Ch. 2 also presents a nice overview of distributional theories)
- G. Cox &
M. McCubbins Legislative Leviathan, Los Angeles: UC Press (1993), Ch. 5 (a theory of legislative parties) + 9 (the majority party and the legislative agenda)

Further readings:

- Shepsle & Bonchek Analysing Politics, Ch. 11 + 12
- Morrow Game Theory for Political Scientists, pp. 138-145
- K. Krehbiel Spatial Models of Legislative Choice, Legislative Studies Quarterly, Vol. 13 (1988), No. 3, pp. 259-319
- B. Weingast & ‘The Industrial Organization of Congress. Or why legislatures like firms

- W. Marshall are not organized as markets’, Journal of Political Economy, 96 (2) 1988 pp. 132-63
- Krehbiel, Sheplse & Weingast ‘Why are Congressional Committees Powerful?’, American Political Science Review, Vol. 81 (1987), No. 3, pp. 929-945
- K. Krehbiel ‘Where’s the party?’, British Journal of Political Science, Vol. 23 (1993), No. 2, pp. 235-266
- K. Krehbiel ‘Are congressional committees composed of outliers?’, American Political Science Review, Vol. 84 (1990), No. 1, pp. 149-163

Week 18 lecture

Week 19 Class

DELEGATION AND OVERSIGHT

- a) Explain adverse selection, moral hazard and transaction costs.
- b) What role does expertise play in principal-agent relationships?
- c) How do legislatures exercise oversight according to McCubbins and Schwartz?
- d) What impact does the existence of multiple principals have on delegation?

Core readings:

- J. Huber & . C. Shipan ‘The Costs of Control: Legislators, Agencies, and Transaction Costs.’ Legislative Studies Quarterly, Vol. 25 (2000), No. 1, pp. 25-52
- M. McCubbins & T. Schwartz ‘Congressional Oversight Overlooked: Police Patrols versus Fire Alarms.’ American Journal of Political Science, Vol. 28 (1984), No. 1, pp. 165-179
- K. Bawn ‘Political Control Versus Expertise: Congressional Choice About Administrative Procedures’ American Political Science Review, Vol. 89 (1995), pp. 62-73

Further readings:

- G. Miller ‘The Political Evolution of Principal-Agent Models’, Annual Review of Political Science, Vol. 8 (2005), pp.-203-225
- Mueller Public Choice III, Ch. 16 + Ch. 17

- Shepsle & Bonchek Analyzing Politics, Ch. 13 (Bureaucracy)
- E. Rasmusen Games & Information, Malden: Blackwell (2001), Ch. 7, 8 +9
- B. Weingast and M. Moran 'Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission', Journal of Political Economy, Vol. 91 (1983), pp. 775-800
- A.K. Dixit: The Making of Economic Policy, Boston: MIT Press (1996)

Week 19 lecture

Week 20 Class

BUREAUCRACY

- a) According to Niskanen's theory of budget maximizing bureaucrats, what is the level of supply by a budget-constrained bureau? Is this level of output efficient?
- b) In what ways, if any, does the bureau-shaping approach differ from Niskanen's theory of bureaucratic supply? Which is superior?

Core readings:

- Mueller Public Choice III, Ch. 16.
- A. Hindmoor Rational Choice. New York, Palgrave Macmillan (2006). Ch. 6

Further readings:

- W. A. Niskanen Bureaucracy and Representative Government. Chicago, Aldine Atherton (1971). Republished as Bureaucracy and Public Economics. Aldershot, Edward Elgar (1994). In particular pp. 3-48.
- P. Dunleavy Democracy, Bureaucracy and Public Choice: Economic Explanations in Political Science. London, Prentice Hall (1991; Longman 2001 reissue). Especially Ch. 7, and 6 and 8 as further reading.
- Breton & Wintrobe 'The Equilibrium Size of a Budget-Maximizing Bureau: A Note on Niskanen's Theory of Bureaucracy' Journal of Political Economy Vol. 83 (1975) No. 1, pp. 195-208.
- O. James The Executive Agency Revolution in Whitehall: Public Interest Versus Bureau-Shaping Perspectives. New York, Palgrave Macmillan (2003).
- A. Breton Competitive Governments: An Economic Theory of Politics and Public Finance. Cambridge, Cambridge University Press (1996), Ch. 4.

Blais & Dion The Budget Maximizing Bureaucrat: Appraisals and Evidence. Pittsburgh, University of Pittsburgh Press (1991).

D.-J. Kraan Budgetary Decisions: A Public Choice Approach. Cambridge, Cambridge University Press (1996), Ch. 4.

Week 20 lecture

No Class

FISCAL POLICY

a) What is the common pool resource problem in budgeting? In what way is it relevant for the design of budgetary institutions?

b) According to Ferejohn and Krehbiel, does the 'budget process' result in lower spending than the 'appropriations process'?

Core readings:

Von Hagen & Harden 'Budget Processes and Commitment to Fiscal Discipline' European Economic Review Vol. 39 (1995), pp. 771-779.

Ferejohn & Krehbiel 'The Budget Process and the Size of the Budget' American Journal of Political Science Vol. 31 (1987) No. 2, pp. 296-320.

Further readings:

M. Hallerberg Domestic Budgets in a United Europe: Fiscal Governance from the End of Bretton Woods to EMU. Ithaca, Cornell University Press (2004), Ch. 1-2.

Hallerberg & Marier 'Executive Authority, the Personal Vote, and Budget Discipline in Latin American and Caribbean Countries' American Journal of Political Science Vol. 48 (2004) No. 3, pp. 571-587.

A. Alesina et al. 'Budget Institutions and Fiscal Performance in Latin America' Journal of Development Economics Vol. 59 (1999) No. 2, pp. 253-273.

Perotti & Kontopoulos 'Fragmented Fiscal Policy' Journal of Public Economics Vol. 86 (2002), pp. 191-222.

Poterba & Von Hagen Fiscal Institutions and Fiscal Performance. Chicago, University of Chicago Press (1999).

Fabrizio & Mody 'Can Budget Institutions Counteract Political Indiscipline?' Economic

Policy Vol. 21 (2006) No. 48, pp. 690-739.

Alt & Lassen

‘Transparency, Political Polarization, and Political Budget Cycles in OECD Countries’ American Journal of Political Science Vol. 50 (2006) No. 3, pp. 530-550.

GV225: Readings for Game Theory Topics (weeks 3,4 and 8)

Lecturers: Dr Torun Dewan (H412)

Office Hours Friday 9-11

1. COURSE DESCRIPTION

Game theory provides a scientific approach to the study of social interactions which focusses on the strategic aspects of decision-making between two or more individuals or groups. The lectures will cover the basic elements of game theory and will prepare you for later topics. Problem sets will be give out and covered in class. The first two lectures will look at games in normal and in extensive form and the final lecture will look at repeated games

1.1. **Readings.** There are many text-books which you may find useful. But these three texts are at the right level for the course. Also consult Dixit and Nalebuff (1991), *Thinking Strategically*, WW Norton.

REFERENCES

GIBBONS, R. (1992): *A Primer in Game Theory*. Prentice Hall.

MORROW, J. (1994): *Game Theory for Political Scientists*. Princeton University Press.

OSBORNE, M. (2004): *An Introduction to Game Theory*. Oxford University Press.

Week 3: *Nash equilibrium, dominated strategies and best response profiles, collective action problems, coordination problems, mixed strategies*

Gibbons chapter 1

Osborne chapters 2-4

Morrow chapter 4

Schelling, Thomas C. (1980), *The Strategy of Conflict*, Cambridge Mass: Harvard University Press, chapter 3-5

Myerson, Roger B. (2006), *Learning From Schelling's Strategy of Conflict*: <http://home.uchicago.edu/rmyerson/research/stratofc.pdf>

Week 4: *Sub-game perfection, backward induction, the commitment problem, credibility.*

Gibbons chapter 2

Osborne chapters 5-6

Morrow chapter 5

Barro, R. and Gordon, D.B. (1983) "Rules, Discretion and Reputation in a Model of Monetary Policy", *Journal of Monetary Economics*.

Week 8: *Finitely repeated games, Trigger strategies, Folk-theorem*

Gibbons chapter 2

Osborne chapter 14

Morrow chapter 9