GV 225: PUBLIC CHOICE AND POLITICS

2007-08

Lecturers: Dr Torun Dewan
Dr Rafael Hortala-Vallve
Dr Valentino Larcinese
Dr Joachim Wehner

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

Kenneth Shepsle & Mark Bonchek


D.C. Mueller


P. Dunleavy


P. Ordeshook


D. Morrow


M. Osborne


Other useful Books for Beginners

Michael Laver


S. Heap et al.


P. A. McNutt

The Economics of Public Choice, Aldershot: Edward Elgar (2002). Okay for selected topics, but not comprehensive for this course.

Advanced text books (which some might enjoy):

Allan Drazen

Political Economy in Macroeconomics (Princeton, 2000) – excellent background, more advanced

*Classics:*


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*.


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.

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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:

Shepse & Bonchek  Analyzing Politics, Ch. 2
Mueller  Public Choice III, Ch. 1.
Allan Drazen  Political Economy in Macroeconomics (Princeton, 2000), ch. 1

Further readings:

P. Ordeshook  Game Theory and Political Theory, Ch. 1, Cambridge: Cambridge University Press (1986)
M. Blaug  The Methodology of Economics, Cambridge: Cambridge
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  

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  

Hannu Nurmi  
Voting Paradoxes and How to Deal with Them, Springer (1999)
Week 3 Lecture

GAME THEORY I
(see separate reading list)

Week 4 Lecture

GAME THEORY II
(see separate reading list)

Week 5 Lecture

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:

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


P. Dunleavy Democracy, Bureaucracy and Public Choice, Ch. 2.


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:

\[
\begin{align*}
  u_1(A) &= u_2(B) = u_3(C) = 2 \\
  u_1(B) &= u_2(C) = u_3(A) = 1 \\
  u_1(C) &= u_2(A) = u_3(B) = 0
\end{align*}
\]

- 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 the 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 the 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

GAME THEORY III
(see separate reading list)

Week 9 Class
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

Mueller  
Public Choice III, ch 12, 19.

A. Alesina & H. Rosenthal  

V. Larcinese  
Models of electoral competition, 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

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

K. Roberts
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 Public Choice III, Ch 13
G. Tsebelis Veto Players, Chs. 3, 4, 5, 6.

Further readings:

TURNOUT

a) Explain the equation $PB + D > C$

b) What can we learn from the empirical evidence on voter turnout?

Core readings:

Mueller
Public Choice III, Ch. 14 (The Paradox of Voting)

A. Downs
An Economic Theory of Democracy, Ch. 11-14, New York: Harper and Row (1957)

P Fiorina
Perspectives on Public Choice, Ch. 18, Cambridge University Press, ed DC Mueller (1997)

Further readings:

W Riker & P Ordeshook

J Ferejohn & P Fiorina

P Fiorina

J Aldrich

J Matsusaka

T Feddersen & W Pesendorfer
‘Abstention in Elections with Asymmetric Information and Diverse Preferences’, The American Political Science Review 93 (1999), pp. 381-398

D Lassen

T Palfrey & D Levine
‘The Paradox of Voter Participation: A Laboratory Study’, The American Political Science Review forthcoming

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  
Information, Elections and Public Policy, available on public folders

L. Bartels  
Message received: the political impact of media exposure, American Political Science Review, 87, 1993

J.G. Matsusaka  

V. Larcinese  
Does Political Knowledge Increase Turnout? Evidence from the 1997 British General Election, forthcoming Public Choice, available on public folders

Further readings:

S. Ansolabehere et al  

B. McNair  

V. Larcinese  
The Instrumental Voter Goes to the News-Agent: Information Acquisition, Marginality and Turnout, available on public folders

B. Newman (ed.)  

D. Nimmo & K. Sanders (eds.)  

J. Zaller  

J. Zaller  
The myth of mass media effectiveness revived, in “Political persuasion

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

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

R. Hall & A. Deardorff
'Lobbying as Legislative Subsidy’, American Political Science Review, Vol. 100 (2006), No. 1., pp. 69-84

W. Mitchell

Further readings:

Mueller
Public Choice III, Ch. 20 (Interest Groups)

W. Mitchell & M. Munger

G. Grossman & E. Helpman

M. Olson
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

K. Shepsle

K. Shepsle & B. Weingast

Rosenthal, agenda-setting

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

P. Dunleavy

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

L. Martin & R. Stevenson
Week 17 Lecture

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
K. Shepsle & B. Weingast
K. Krehbiel
G. Cox & M. McCubbins

Further readings:

Shepsle & Bonchek
Morrow
K. Krehbiel
B. Weingast &
Week 18 lecture

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:


Further readings:


Mueller Public Choice III, Ch. 16 + Ch. 17
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.


Further readings:


Week 20 lecture  

**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:*


*Further readings:*


Fabrizio & Mody ‘Can Budget Institutions Counteract Political Indiscipline?’ *Economic*
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 given 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 textbooks 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


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

Gibbons chapter 2

Osborne chapters 5-6

Morrow chapter 5


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

Gibbons chapter 2

Osborne chapter 14

Morrow chapter 9