#### EC260: The Political Economy of Public Policy

#### QUESTIONS

#### **RATIONALITY AND PREFERENCE AGGREGATION**

(a) What are the implications for social choice of the following quote by Robbins: "To state that A's preference stands above B's in order of importance is completely different from stating that A prefers n to m and B prefers n to m in different order. It involves an element of conventional valuation. Hence it is essentially normative. It has no place in pure science".

(b) Discuss the relevance of Arrow's theorem for social choice theory and the design of electoral systems.

(c) 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?

### **COLLECTIVE ACTION**

(a) What are public goods? Do they lead to special problems for collective action?

(b) Why does Olson think it irrational to join an interest group organization?

# MAJORITY RULE

(a) 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:

$$u_1(A) = u_2(B) = u_3(C) = 2u_1(B) = u_2(C) = u_3(A) = 1u_1(C) = u_2(A) = u_3(B) = 0$$

- 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?

- 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 the we explain the success of Blair in the last three British elections in terms of the median voter theorem?

#### REDISTRIBUTION

- (a) How do Meltzer & Richard explain the growth of the public sector observed along most of the 20<sup>th</sup> century? How do you think this model could explain the emphasis on cutting social spending observed in developed countries in recent years?
- (b) Apply the Downsian model to explain the problems faced by a policy-maker who wants to implement a pension reform.

(c) Consider a polity with 3 agents: P (poor), M (median), R (rich). Income redistribution is implemented by a distorsive linear tax with lump sum benefit and balanced budget. All the assumption of the Meltzer & Richard model hold. Explain what are the implications for redistribution of:

- (i) an increase of R'income;
- (ii) an increase in M's income;
- (iii) an increase in P's income;
- (iv) an increase in both P and R's income.
- (v) new possibilities to transfer income to foreign banks.

## **INFORMATION**

- (a) Can mass media affect election outcomes?
- (b) What is information aggregation ? Is it likely to occur in general elections?

#### 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.

### POLITICAL AGENCY I: INSTITUTIONS AND ACCOUNTABILITY

- a) What is i) moral hazard and ii) adverse selection. Why are they relevant to representative politics?
- b) Which political mechanisms can be used to hold politicians to account.

c) Why might a society choose to introduce measures to protect politicians from accusations of corruption?

d) Should we pay politicians more?

# ORGANISATION OF LEGISLATURES

- (a) What is a Minimum Winning Coalition? Why is it reasonable prediction regarding the size of a legislative coalition? What features of legislative bargaining might lead to other types of coalition formation?
- (b) Explain the idea of vote-trading. Explain how the institutional features of a polity may underpin such practices.
- (c) How does the portfolio allocation model differ from previous models of coalition formation?

# **INTEREST GROUPS**

- a) What is rent-seeking? Is it always socially deleterious or can it be socially advantageous?
- b) Using the rent-seeking framework, discuss the effect of interest groups on the policy process.

# POLITICAL LEADERSHIP

(a) Explain how political leadership can help resolve collective action problems.

(b) What are the problems involved in empirically analyzing the effect of leadership, and how can these be overcome.

#### **INSTITUTIONS**

a)"Transitions to democracy go against the central tenets of traditional political economy, since they generally involve elites giving up power". Discuss

- b) Explain how democracy as an institutional process can help establish redistribution.
- c) Is rule by the people fopr the people an illusionary goal

### **POLITICAL AGENCY II:**

- (a) What motivates political agents?
- (b) What type of incentives are effective at securing quality service provision?
- (c) How does the relationship between the legislature and the bureaucracy affect policy outcomes?