

PUBLIC ECONOMICS

IE University

Professor: **MICHAEL BECHER**

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Academic year: 23-24

Degree course: SECOND

Semester: 1^o

Category: BASIC

Number of credits: 6.0

Language: English

PREREQUISITES

The course especially builds on the introduction to game theory and basic econometrics covered in the first year.

SUBJECT DESCRIPTION

In this course, we examine the political economy of public policymaking using the analytical and empirical tools of modern microeconomics enriched by a comparative perspective. A central theme concerns the role of government in resource allocation through tax, spending and regulatory activities. We will study how the political equilibrium may differ in terms of efficiency and equality from outcomes without government intervention, and explore how outcomes vary across different political and economic institutions. We will discover that policy advice ignores politics at its peril. Throughout the course, students engage relevant problems through the analysis of data, models and policy prescriptions.

OBJECTIVES AND SKILLS

An overarching goal of the course is that students become able to apply a political economy lens to the analysis and discussion of public policy. Understanding what policy may be best requires taking seriously the constraints imposed by the political process on those who make and/or implement policy. The course also serves to enhance students' skills with respect to the theoretical analysis of strategic interactions as well as the statistical analysis of experimental and observational data to inform the evaluation of policies and institutions.

METHODOLOGY

The main activities of the course include: readings, lectures, in-class activities as well as individual and group work. Participants are expected to carefully read the required readings prior to each class and be prepared to discuss them.

The textbook "Political Economy for Public Policy" by Ethan Bueno de Mesquita is required for this course (abbreviated PEPP in program; full bibliographic information below). Some sessions assign other or additional readings in the form of academic articles, policy briefs or news articles. These readings will be made available on the course website. The material we cover will come from a variety of sources – not just the main textbook – so lecture and lecture notes are an important source of information on which you will be examined. I encourage students to ask questions whenever they are in doubt – in class, in office hours, over email, etc. – and to participate in classroom activities. Lastly, the course website should be checked regularly for materials posted, announcements, and discussions.

Teaching methodology	Weighting	Estimated time a student should dedicate to prepare for and participate in
Lectures	23.33 %	35 hours
Discussions	16.67 %	25 hours
Exercises	20.0 %	30 hours
Group work	20.0 %	30 hours
Other individual studying	20.0 %	30 hours
TOTAL	100.0 %	150 hours

PROGRAM

The program is orientative and likely to be somewhat in flux over the semester, as topics may take more or less time than anticipated.

SESSION 1 (LIVE IN-PERSON)

Introduction

SESSION 2 (LIVE IN-PERSON)

Normative foundations

Required Reading:

Book Chapters: Textbook (PEPP) ch. 1 (See Bibliography)

SESSION 3 (LIVE IN-PERSON)

Policy debate

Applying normative frameworks covered in previous session

SESSION 4 (LIVE IN-PERSON)

Collective goals

Required Reading:

Book Chapters: Textbook (PEPP) ch. 2 (See Bibliography)

SESSION 5 (ASYNCHRONOUS)

Review of Pareto concepts

Required Reading:

Book Chapters: Textbook (PEPP) ch. 3. (See Bibliography)

SESSION 6 (LIVE IN-PERSON)

Externalities and public goods

Required Reading:

Book Chapters: Textbook (PEPP) ch. 4. (See Bibliography)

SESSION 7 (LIVE IN-PERSON)

Governing the commons

- Cases

- Required readings:

Book Chapters: Elinor Ostrom (1990), Governing the commons: the evolution of institutions for collective action, Cambridge University Press. Ch. 1-3. (IE Library)

- PROBLEM SET 1 handed out

SESSION 8 (LIVE IN-PERSON)

Coordination problems

Required Reading:

Book Chapters: Textbook (PEPP) ch. 5. (See Bibliography)

SESSION 9 (LIVE IN-PERSON)

Commitment problems

Required Reading:

Book Chapters: Textbook (PEPP) ch. 6. (See Bibliography)

PROBLEM SET 1 due

SESSION 10 (LIVE IN-PERSON)

Summing up social dilemmas

Review of problem set 1

SESSION 11 (LIVE IN-PERSON)

Democracy and redistribution: Who wants what?

- Redistribution and insurance motives

- Identify and other regarding preferences

Required reading:

Book Chapters: David Rueda and Daniel Stegmueller, 2019, "Who Wants What? Redistribution Preferences in Comparative Perspective", Cambridge University Press. Ch. 1 and 3 (only pp. 58-68). (ced)

Further recommended readings:

- Alberto Alesina, Armando Miano, Stefanie Stantcheva, 2022, "Immigration and Redistribution", *The Review of Economic Studies*
- Torben Iversen and David Soskice. 2001. "An Asset Theory of Social Policy Preferences." *American Political Science Review* 95(4).
- Moses Shayo. 2009. "A Model of Social Identity with an Application to Political Economy: Nation, Class, and Redistribution." *American Political Science Review* 103(2).
- Thomas Piketty. 2005. "Social Mobility and Redistributive Politics." *Quarterly Journal of Economics* 110(3).

SESSION 12 (LIVE IN-PERSON)

Democracy and redistribution: political competition

- Median voter theorem & two-party competition
- When does policy deviate from median voter?

Required reading:

Book Chapters: Daron Acemoglu, Suresh Naidu, Pascual Restrepo, James. A. Robinson. 2014. "Democracy, Redistribution and Inequality." In: Handbook of Income Distribution, Volume 2, pp. 1885-1966. (Focus on pp. 1885-1904, 1909-1928.) (ced)

Further readings

- Thomas Fujiwara. 2015. "Voting Technology, Political Responsiveness, and Infant Health: Evidence From Brazil." *Econometrica* 83(2): 423-464.
- Branko Milanovic. 2010. "Four Critiques of the Redistribution Hypothesis: An Assessment." *European Journal of Political Economy* 26(1): 147-154.
- Allan Meltzer and Scott Richard. 1981. "A Rational Theory of the Size of Government." *Journal of*
- Peter H. Lindert. 2004. *Growing Public: Social Spending and Economic Growth since the Eighteenth Century*. (2 volumes). Cambridge: Cambridge University Press

SESSION 13 (LIVE IN-PERSON)

Mock midterm

SESSION 14 (LIVE IN-PERSON)

Elections and the macroeconomy

- Dynamic inconsistency
- Partisan and opportunistic models

Required readings:

Book Chapters: Textbook (PEPP) ch. 8. (See Bibliography)

Book Chapters: Carles Boix, 1998, Political Parties, Growth and Equality, Cambridge University Press. Ch. 2. (IE Library)

Further recommended readings

- Alberto Alesina, Nouriel Roubini and Gerald D. Cohen. 1997. *Political Cycles and the Macroeconomy*. Cambridge, Mass: The MIT Press. Ch. 1-3 (only pp. 1-8, 15-33, 45-66).
- Allan Drazen. 2000. *Political Economy in Macroeconomics*. Princeton University Press.

SESSION 15 (LIVE IN-PERSON)

Midterm exam

In-person, individual, closed book

SESSION 16 (LIVE IN-PERSON)

Review of midterm

SESSION 17 (LIVE IN-PERSON)

Money and politics

Required reading:

Book Chapters: Julia Cagé, 2020, The Price of Democracy: How Money Shapes Politics and What to Do About It, Harvard University Press. Ch. 3, 8. (ced)

Recommended further reading:

- Ansolabehere, Stephen, John M. de Figueiredo, and Jr Snyder James M. 2003. "Why Is There so Little Money in U.S. Politics?" *Journal of Economic Perspectives* 17 (1): 105–30.
- Joshua L. Kalla and David E. Broockman, 2016, "Campaign Contributions Facilitate Access to Congressional Officials: A Randomized Field Experiment." *American Journal of Political Science* 60 (3): 545–58.

SESSION 18 (LIVE IN-PERSON)

Class politics in the 21st century

Required reading:

Article: Nicolas Carnes and Noam Lupu, 2015, "Rethinking the Comparative Perspective on Class and Representation: Evidence from Latin America." (American Journal of Political Science, 59: 1-18.) (ced)

Recommended further readings

- Amor Gethin, Clara Martínez-Toledano, and Thomas Piketty, 2022, "Brahmin Left vs Merchant Right: Changing Political Cleavages in 21 Western Democracies 1948-2020", *Quarterly Journal of Economics* 37(1).
- Nicolas Carnes, 2013, *White Collar Government*, Chicago University Press. Ch. 2

SESSION 19 (LIVE IN-PERSON)

Electoral institutions and the scope of government

PROBLEM SET 2 handed out

Required reading:

Book Chapters: Torsten Persson and Guido Tabellini, 2008, "Electoral Systems and Economic Policy", In: The Oxford Handbook of Political Economy, edited Donald A. Wittman and Barry R. Weingast. (ced)

Further recommended readings:

- Gary Cox, 1999, "Electoral Rules and Strategic Coordination", *Annual Review of Political Science* 2:145-161
- Alberto Alesina and Glaeser, Edward, 2004, *Fighting Poverty in the US and Europe: A World of Difference*. Oxford University Press. (Ch. 4-5)
- Torben Iversen and David Soskice. 2006. "Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More than Others." *American Political Science Review* 100(2): 165-181.

SESSION 20 (LIVE IN-PERSON)

Income taxation in the long run

Required Reading:

Book Chapters: Kenneth Scheve and David Stasavage. 2016. Taxing the Rich: A History of Fiscal Fairness in the United States and Europe. Princeton University Press. Ch. 3. (ced)

Further Reading:

- Emmanuel Saez and Gabriel Zucman. 2019. The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay. WW Norton. Especially Introduction and Ch. 1 "Income and Taxes in America."

SESSION 21 (LIVE IN-PERSON)

Unequal democracy in America

PROBLEM SET 2 due

Required reading:

Article: Martin Gilens and Benjamin Page, 2014, "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens." (Perspectives on Politics 12(3): 564-581) (ced)

Further recommended readings

- Larry Bartels, 2016, Unequal Democracy: The Political Economy of the Gilded Age. Princeton University Press. 2nd edition. Ch. 8.

- Mads Elkjær and Michael B. Klitgaard, 2021, "Economic Inequality and Political Responsiveness: A Systematic Review." Perspectives on Politics, 1-20.

SESSION 22 (LIVE IN-PERSON)

What do unions still do in markets and politics?

Required Reading:

Article: Daron Acemoglu and James A. Robinson. 2013. "Economics versus Politics: Pitfalls of Policy Advice." (Journal of Economic Perspectives 27(2)) (ced)

Working Paper: Henry S. Farber, Daniel Herbst, Ilyana Kuziemko, Suresh Naidu. 2018. "Unions and Inequality Over the Twentieth Century: New Evidence from Survey Data." NBER Working Paper No. 24587.

Recommended further feading:

- Michael Becher and Daniel Stegmueller. 2021. "Reducing Unequal Representation: The Impact of Labor Unions on Legislative Responsiveness in the U.S. Congress." Perspectives on Politics 19(1), 92-109.

SESSION 23 (LIVE IN-PERSON)

Electoral accountability and corruption

Required Reading:

Book Chapters: Textbook (PEPP) ch. 10 (only sections 10.3 and 10.4). (See Bibliography)

Article: Claudio Ferraz and Frederico Finan. 2011. "Electoral Accountability and Corruption: Evidence from the Audits of Local Governments." (American Economic Review 101(4). (Focus on empirics.)) (ced)

Further recommended reading:

- Timothy Besley. 2006. Principled Agents? The Political Economy of Good Government. Oxford University Press. (especially Ch. 3-4)

- James Alt, Ethan Bueno de Mesquita, and Shanna Rose. 2011. "Disentangling Accountability and Competence in Elections." *Journal of Politics* 73(3).

- Eric Maskin and Jean Tirole. 2004. "The Politician and the Judge: Accountability in Government." *American Economic Review* 94(4): 1034-1054.

SESSION 24 (LIVE IN-PERSON)

Elections: Is it the economy, stupid?

Required reading:

Article: Mark A. Kayser and Michael Peress. 2012. "Benchmarking across Borders: Electoral Accountability and the Necessity of Comparison." (American Political Science Review 106(3)) (ced)

Further recommended readings:

- Adi Brender and Allan Drazen. 2008. "How Do Budget Deficits and Economic Growth Affect Reelection Prospects? Evidence from a Large Panel of Countries." *American Economic Review* 98(5).

- Andrew Healy and Gabriel S. Lenz. 2014. "Substituting the End for the Whole: Why Voters Respond Primarily to the Election-Year Economy." *American Journal of Political Science* 58(1): 31-47.

SESSION 25 (LIVE IN-PERSON)

Political economy of populism

Required reading:

Book Chapters: Jan-Werner Müller. 2016. What is Populism? University of Pennsylvania Press. Ch. 1-2. (ced)

Article: Guriev, Sergei and Elias Papaioannou, 2022, "The Political Economy of Populism", (Journal of Economic Literature, forthcoming.)

Article: Dani Rodrik. 2018. "Populism and the Economics of Globalization." (Journal of International Business Policy) (ced) (Optional)

Further recommended readings:

- Dani Rodrik. 2018. "Populism and the Economics of Globalization." *Journal of International Business Policy*.

- Ronald Inglehart and Pippa Norris. 2017. "Trump and Populist-Authoritarian Parties: The Silent Revolution in Reverse." *Perspectives on Politics*. 15(2): 443-454.

- Guiso L, Herrera H, Morelli M, Sonno T. 2019. Global crises and populism: the role of eurozone institutions. *Economic Policy* 34(97):95–139.

SESSION 26 (LIVE IN-PERSON)

Populists in power

Required reading:

- TBA

Book Chapters: Jan-Werner Müller. 2016. What is Populism? University of Pennsylvania Press. Ch. 3. (IE Library)

SESSION 27 (LIVE IN-PERSON)

Technology and democracy

Required reading:

Book Chapters: Carles Boix (2019), Democratic capitalism at the crossroads: Technological change and the future of politics. Princeton Univ. Press. Ch. 4-5. (ced)

SESSION 28 (LIVE IN-PERSON)

Group presentations

SESSION 29 (LIVE IN-PERSON)

Group presentations & wrapping up

SESSION 30 (LIVE IN-PERSON)

Final exam

In-person, individual, closed-book

BIBLIOGRAPHY

Compulsory

- Ethan Bueno de Mesquita. (2016). *Political Economy for Public Policy*. Princeton University Press. ISBN 9780691168746 (Digital)

EVALUATION CRITERIA

Exams. The individual exams takes place in class; they are closed book. The final exam is comprehensive. Students are required to obtain the minimum grade of 5 in the final to pass the course.

Problem sets. Students will complete two problem sets as homework. Students must individually submit their answers via Blackboard.

Group project: Students form groups of 3-4 students for the semester-long project. They present their results in the penultimate sessions.

Class participation: Quizzes based on the readings are part of the participation grade.

There are no extra credit assignments.

Criteria	Percentage	Comments
Final Exam	30 %	Closed book
Midterm exam	20 %	Closed book
Group Presentation	20 %	Group project
Problem sets	20 %	Homework
Class Participation	10 %	Including quizzes

GENERAL OBSERVATIONS

Each student has four attempts over two consecutive academic years to pass this course.

For every BIE Program mandatory class, students are required to obtain the minimum grade of 5 required to pass the course. Students whose grade in the Final Exam (or the largest assignment) is below 5 will fail the course. The rule applies to whichever assignment carries the greatest weight to the final grade. Dates and location of the final exam will be posted in advance and will not be changed.

Students must attend at least 70% of the sessions. Students who do not comply with the 70% attendance rule will receive a 0.0 on their first and second attempts and go directly to the third one (they will need to enroll in this course again the following academic year).

Students who are in the third or fourth attempt must contact the professor during the first two weeks of the course.

ATTENDANCE

In-person attendance is *mandatory* at IE University, as it is an essential factor of IE's learning methodology. While we do closely monitor attendance in each course, we also consider our students responsible for their own agenda and commitments, as adult university students. With that in mind, each student may miss up to 30% of the sessions within a given course and still maintain the possibility of passing that given course. This 30% "buffer" is to be used for any absences, such as: illnesses, personal emergencies, commitments, official/governmental matters, business and/or medical appointments, family situations, etc. Students should manage their various needs, and situations that may arise, within that 30% buffer. If a student is absent to more than the allowed 30% of the sessions (regardless of the reason), s/he will obtain a 0.0 grade for that course in both the ordinary and extraordinary calls of the current academic year, and s/he will have to retake the course during the following academic year.

Please pay close attention to your attendance. The program strongly encourages attending 100% of the sessions as it will improve your learning outcomes, it will increase the class performance and it will benefit your participation grade. Noncompliance with deadlines for Non-Classroom Learning activities or assignments will result in an absence for the session.

Extreme cases involving emergencies such as: extended hospitalizations, accidents, serious illnesses and other cases of force majeure, are to be consulted with the Program Management (bir.biemadrid@ie.edu) for assessment of the situation and corresponding documentation, in order to support and guide each student optimally.

For more information about the university attendance policy, please check; <https://www.ie.edu/student-guide/bir/policies-and-guidelines/attendance/>

RETAKE POLICY

Any student whose weighted final grade is below 5 will be required to sit for the retake exam to pass the course (except those not complying with the attendance rules, whom are banned from this possibility).

Grading for retakes will be subject to the following rules:

- The retakes will consist of a comprehensive exam or equivalent assignment. The grade will depend only on the performance on this exam; continuous evaluation over the semester will not be taken into account.
- Dates and location of the retakes will be posted in advance and will not be changed.
- The exam/assignment will be designed bearing in mind that the passing grade is 5 and the maximum grade that can be attained is 8 out of 10.

PLAGIARISM / ACADEMIC HONESTY

Plagiarism is the dishonest act of presenting another person's ideas, texts or words as your own. This includes in order of seriousness of the offense:

- providing faulty sources;
- copy-pasting material from your own past assignments (self-plagiarism) without the instructor's permission;
- copy-pasting material from external sources even while citing them;
- using verbatim translations from sources in other languages without citing them;
- copy-pasting material from external sources without citing them;

- and buying or commissioning essays from other parties.

IEU students must contact the professor if they don't know whether the use of a document constitutes plagiarism. For help with your academic writing, contact the Writing Center (writingcenter@faculty.ie.edu). The professor will also advise the student on how to present said material. All written assignments must be submitted through Turn-it-in, which produces a similarity report and detects cases of plagiarism. Professors are required to check each student's academic work in order to guarantee its originality. If the originality of the academic work is not clear, the professor will contact the student in order to clarify any doubts. Students using external tutorial support should report it to the professor and the BIE/BIR Program from the moment they began receiving this support. In the event that the meeting with the student fails to clarify the originality of the academic work, the professor will inform the Director of the Bachelor Program about the case, who will then decide whether to bring the case forward to the BIE/BIR Academic Review Panel. Very high similarity scores will be automatically flagged and forwarded to the Academic Review Panel. Plagiarism constitutes a very serious offense and may carry penalties ranging from getting a zero for the assignment to expulsion from the university depending on the severity of the case and the number of times the student has committed plagiarism in the past.

PROFESSOR BIO

Professor: **MICHAEL BECHER**

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MICHAEL BECHER

Michael Becher obtained his PhD from Princeton University. Before joining IE University, he taught at the Toulouse School of Economics and the University of Konstanz. His research is situated in the field of political economy with a focus on the functioning of democracy. Recently, he has also worked on the COVID19 pandemic. His work has been published in leading academic journals, such as American Journal of Political Science or American Political Science Review, and it has been featured in various international news outlets.

OTHER INFORMATION

Office hours: There will be weekly office hours. Place and time: TBA. Email the instructor (mbecher@faculty.ie.edu) for an appointment.

CODE OF CONDUCT IN CLASS

1. Be on time: Students arriving more than 5 minutes late will be marked as "Absent". Only students that notify in advance in writing that they will be late for a specific session may be granted an exception (at the discretion of the professor).
2. If applicable, bring your name card and strictly follow the seating chart. It helps faculty members and fellow students learn your names.
3. If connecting remotely, leave video feed on at all times.
4. Do not leave the room during the lecture: Students are not allowed to leave the room during lectures. If a student leaves the room during lectures, he/she will not be allowed to re-enter and, therefore, will be marked as "Absent". Only students that notify that they have a special reason to leave the session early will be granted an exception (at the discretion of the professor).
5. Do not engage in side conversation. As a sign of respect toward the person presenting the lecture (the teacher as well as fellow students), side conversations are not allowed. If you have a question, raise your hand and ask it. If you do not want to ask it during the lecture, feel free to approach your teacher after class. If a student is disrupting the flow of the lecture, he/she will be asked to leave the classroom and, consequently, will be marked as "Absent".

6. Use your laptop for course-related purposes only. The use of laptops during lectures must be authorized by the professor. The use of Social Media or accessing any type of content not related to the lecture is penalized. The student will be asked to leave the room and, consequently, will be marked as "Absent".

7. No cellular phones: IE University implements a "Phone-free Classroom" policy and, therefore, the use of phones, tablets, etc. is forbidden inside the classroom. Failing to abide by this rule entails expulsion from the room and will be counted as one absence.

8. Escalation Policy: the first time you are asked to leave the classroom it will be counted as an absence. If it happens a second time, it will be counted as 3 absences, and an Academic Review Panel will be consulted to discuss other possible sanctions, up to an including possible failing of course and in extreme cases expulsion from program.

