

ECON 431 QUANTITATIVE POLITICAL ECONOMY

(18 points)

1st Semester 2010

Prerequisite: ECON 375.

Co-requisites: ECON371, ECON376.

Lecture Times and Venues:

Mondays: 10:00-12:00

Paper Co-ordinator:

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Office Hours: Mondays 14:00-15:00 and Fridays 13:00-14:00

Workload:

Under the University's points conventions, a 18-point paper corresponds approximately to an average workload of 12 hours per week (including contact hours), or roughly 180 hours in total over a 15-week period (including the end-of-semester exam period).

General Learning Aims and Objectives:

- To further enhance students' understanding of and contribution to a changing society in an informed and responsible way by applying their understanding of economics to wider issues in the social sciences.
- To develop student interest in quantitative political economy and its application to policy issues.
- To provide a foundation for those students who may choose to continue studies at postgraduate level in quantitative political economy.

Specific Learning Aims and Objectives:

- Develop a general theory for analyzing social choice.
- Analyse the empirical factors explaining observed political/economic choices in a democracy.
- Analyse the interaction between economic factors and violent political conflict.
- Examine the role of domestic political institutions in enhancing or retarding economic performance.

Assessment:

Assessment comprises 3 components:

- Three seminar presentations worth 5% each.
- An essay set in week 7 and due in week 12, worth 15%.
- An open-book final examination worth 70%.

Calculators: mathematical calculators are allowed but neither programmable nor communicable devices are allowed to be used, in tutorials, test, or examinations.

Provisional Schedule and Reading List

It is not intended that you read all of these papers immediately; some students may wish to read selectively in the first instance. Please ask if you would like help prioritising the reading material.

WEEKS 1-3: Social choice: collective decision-making and normative models of voting

- T. Besley and S. Coate (1997) “An economic model of representative democracy”, *Quarterly Journal of Economics* 108, 85-114
- K. Binmore (1998) “The evolution of fairness norms”, *Rationality and Society* 10, 275-301
- D. Black (1948) “On the rationale of group decision-making”, *Journal of Political Economy* 56, 23-34
- B. Frey and A. Stutzer (2005) “Beyond outcomes: measuring procedural utility”, *Oxford Economic Papers* 57, 90-111
- H. Gravelle and R. Rees (1992) *Microeconomics* chapter 17F, HB 172.GR99
- P. Hansen (2002) “Another graphical proof of Arrow's Impossibility Theorem”, *Journal of Economic Education* 33, 217-235
- J. Konow (2003) “Which is the fairest one of all? A positive analysis of justice theories”, *Journal of Economic Literature* 41, 1188-1239
- J. Locke (various) *Second Treatise of Civil Government* chapter 5, JC 153.L85
- J. Rawls (1999) *Theory of Justice* chapter 3, JC 578.R383
- A. Sen (1995) “Rationality and social choice”, *American Economic Review* 85, 1-24
- A. Sen (1983) “Liberty and social choice”, *Journal of Philosophy* 80, 5-28
- A. Sen (1991) “Welfare, preference and freedom”, *Journal of Econometrics* 50, 15-29
- J-R. Tyran and R. Sausgruber (2006) “A little fairness may induce a lot of redistribution in democracy”, *European Economic Review* 50, 469-485
- H. Young (1988) “Condorcet's theory of voting”, *American Political Science Review* 82, 1231-44

WEEK 4: Seminar presentations

WEEKS 5-6: Positive models of voting

- A. Brender and A. Drazen (2005) “Political budget cycles in new versus established democracies”, *Journal of Monetary Economics* 52, 1271-1295
- G. Evans and R. Andersen (2006) “The political conditioning of economic perceptions”, *Journal of Politics* 68, 194-207
- D. Fielding (2000) “Social and economic determinants of English voter choice in the 1997 general election”, *Public Choice* 102: 271-295
- B. Gomez and J. Wilson (2006) “Cognitive heterogeneity and economic voting: a comparative analysis of four democratic electorates”, *American Journal of Political Science* 50, 127-145
- P. Pettersson-Lidbom (2007) “Do parties matter for fiscal policy choices? A regression-discontinuity approach”, Department of Economics, Stockholm University, <http://people.su.se/~pepet/Partycontrol.pdf>
- R. Smith (2002) “A statistical assessment of Buchanan's vote in Palm Beach County”, *Statistical Science* 17: 441-457
- K. Velasco (2004) “Economic performance and accountability: The revival of the economic vote function”, Department of Political Science, Stanford University, www.stanford.edu/class/polisci353/2004spring/reading/lopez_final.pdf

WEEKS 7-8: Violent conflict

- C. Berrebi and E. Klor (2008) “Are voters sensitive to terrorism? Direct evidence from the Israeli electorate”, Department of Economics, Hebrew University of Jerusalem, http://economics.huji.ac.il/facultye/klor/voters_preferences.pdf
- P. Collier and A. Hoeffler (2004) “Greed and grievance in civil war”, *Oxford Economic Papers* 56, 563-595

- Fielding, D. and M. Penny (2009) “What causes changes in opinion about the Israeli-Palestinian peace process?” *Journal of Peace Research* 46(1), 99-118
- P. Verwimp (2005) “An economic profile of peasant perpetrators of genocide: micro-level evidence from Rwanda”, *Journal of Development Economics* 77(2), 297-323
- some papers from www.wider.unu.edu/research/projects-by-theme/global-governance/en_GB/making-peace-work
- The *Households in Conflict* website is also interesting: www.hicn.org

WEEK 9: Seminar presentations

WEEKS 10-11: Institutions, markets and economic growth

- D. Acemoglu, S. Johnson and J. Robinson (2001) “The colonial origins of comparative development: an empirical study”, *American Economic Review* 91, 1369-1401
- R. Allen (1997) “Agriculture and the origins of the state in Egypt”, *Explorations in Economic History*, 34, 135-54
- J. Heinrich *et al.* (2001) “In Search of *Homo Economicus*”, *American Economic Review* (papers and proceedings), 72-78
- R. Clower and P. Howitt (2000) “The emergence of economic organisation”, *Journal of Economic Behavior and Organisation*, 41, 55-84
- D. Fielding and S. Torres (2008) “Cows and conquistadors: a comment on the colonial origins of comparative development”, *Journal of Development Studies* 44(8): 1081-1099
- M. Silver (1983) “Karl Polanyi and markets in the ancient Near East: the challenge of the evidence”, *Journal of Economic History* 43, 795-829
- M. Smith (2004) “The archaeology of ancient state economies”, *Annual Review of Anthropology* 33, 73-102
- P. Temin (2002) “Price behavior in ancient Babylon”, *Explorations in Economic History* 39, 46-60
- P. Temin (2006) “The economy of the early Roman Empire,” *Journal of Economic Perspectives* 20(1): 133- 151

WEEK 12: Seminar presentations

WEEK 13: Revision

Specimen Examination Paper (3 Pages)

Time allowed: three hours

Answer three questions.

1. Since you've chosen to do this question anyway, would you mind if it were compulsory? Explain.

2. "Shortly before the Patrician [of Ankh-Morpork] came to power there was a terrible plague of rats. The city council countered it by offering twenty pence for every rat tail. This did, for a week or two, reduce the number of rats — and then people were suddenly queuing up with tails, the city treasury was being drained, and no one seemed to be doing much work. And there still seemed to be a lot of rats around. Lord Vetinari had listened carefully while the problem was explained, and had solved the thing with one memorable phrase which said a lot about him, about the folly of bounty offers, and about the natural instincts of Ankh-Morporkians in any situation involving money: 'Tax the rat farms.'"

Soul Music by Terry Pratchett

Is there ever a case for benevolent dictatorships? Explain.

3. "Formal government makes but a small part of civilised life; and when even the best that human wisdom can devise is established, it is a thing more in name and idea than in fact. It is to the great and fundamental principles of society and civilisation — to the common usage universally consented to, and mutually and reciprocally maintained — to the unceasing circulation of interest, which, passing through its million channels, invigorates the whole mass of civilised man — it is to these things, infinitely more than to anything which even the best instituted government can perform, that the safety and prosperity of the individual and of the whole depends."

The Rights of Man by Thomas Paine

Discuss.

4. The following table and figure appear in Heinrich *et al.* (2006) "Costly Punishment Across Human Societies", *Science* 312: 1767-1770. The paper discusses the results of running Ultimatum Game (UG) experiments with representative individuals drawn from the different ethnic groups listed in the table.

Table 1. Summary of populations studied. The column labeled "Economic base" classifies the production systems. Horticulturalists, for example, rely primarily on slash-and-burn agriculture, whereas pastoralists rely primarily on herding. "Residence" classifies societies according to the nature and frequency of their social groups' movements.

Group	Continent	Nation, region	Environs	Economic base	Residence
Accra City	Africa	Ghana	Urban	Wage work	Sedentary
Gusii	Africa	Kenya, Nyamira	Fertile high plains	Mixed farming, wage work	Sedentary
Hadza	Africa	Tanzania	Savannah-woodlands	Foraging	Nomadic
Isanga village	Africa	Tanzania, Mbeya	Mountainous forest	Agriculture, wage work	Sedentary
Maragoli	Africa	Kenya	Fertile plains	Mixed farming, wage work	Sedentary
Samburu	Africa	Kenya	Semi-arid savanna	Pastoralism	Semi-nomadic
Emory freshman	N. America	U.S., southeast	Temperate forest, urban	Students	Temporary residence
Missouri	N. America	U.S., rural and urban midwest	Prairie	Wage work and farming	Sedentary
Sanquianga	S. America	Colombia, Pacific coast	Mangrove forest	Fisheries (fish, clams, shrimp)	Sedentary
Shuar	S. America	Ecuador, Amazonia	Tropical forest	Horticulture	Sedentary
Tsimane	S. America	Bolivia, Amazonia	Tropical forest	Horticulture-foraging	Semi-nomadic
Dolgan/Nganasan	Asia	Russian Federation, Siberia	Tundra-taiga	Hunting/fishing and wage work	Semi-sedentary
Au	Oceania	Papua New Guinea, West Sepik	Mountainous tropical forest	Horticulture-foraging	Sedentary
Sursurunga	Oceania	Papua New Guinea, New Ireland	Coastal tropical island	Horticulture	Sedentary
Yasawa	Oceania	Fiji, Yasawa Island	Coastal tropical pacific	Horticulture and marine foraging	Sedentary

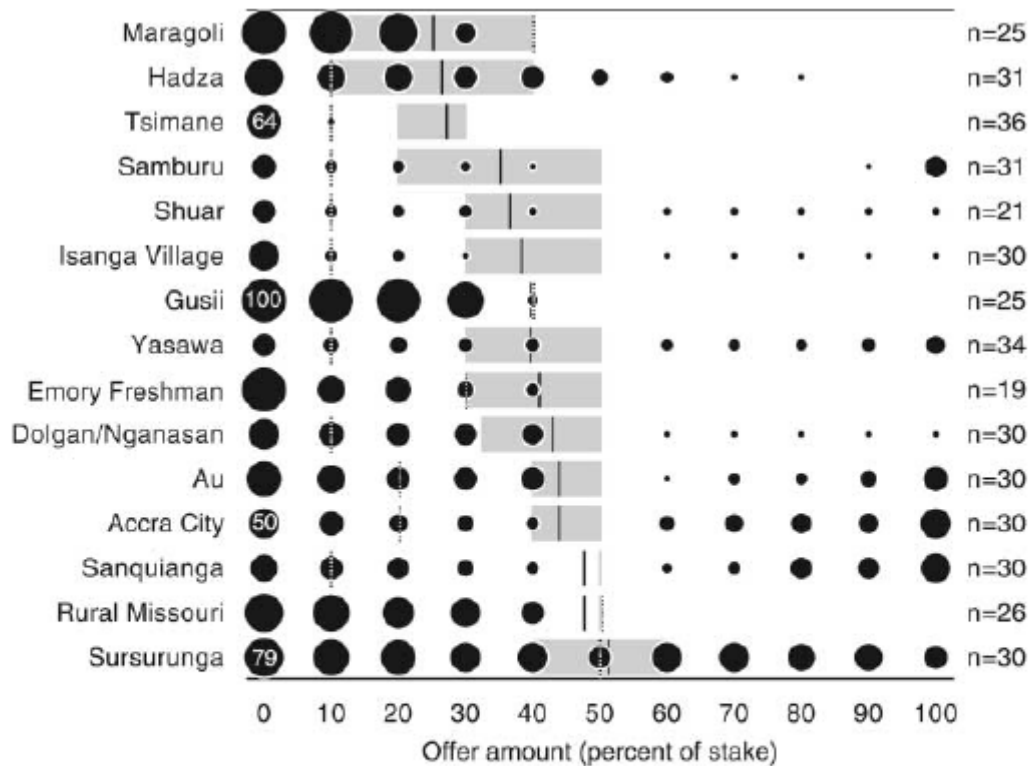


Fig. 1. UG results displayed as the distributions of rejections across possible offers in the UG, which overlay the mean offers and interquartiles. For each population labeled along the vertical axis, the areas of the black bubbles, reading horizontally, show the fraction of the sample of player 2s who were willing to reject that offer. For reference, inside some of the bubbles we noted the percentage illustrated by that bubble. The dashed vertical bars mark the IMO for each population. The solid vertical bars mark the mean offer for each population, with the gray shaded rectangle highlighting the interquartile of offers. Populations were ordered by their mean offers (from low to high). Counts on the right (*n*) refer to numbers of pairs of players.

The authors note that “[an] indirect measure of a population’s willingness to punish is its income-maximizing offer (IMO), which is the offer that maximizes player 1’s expected income, given the observed rejection probabilities in that society.”

How would you explain the differences indicated in the figure?

5. “One reason that people fight wars is that there is no longer enough food where they are, and they have to find more land and food somewhere, or they and their children will starve... Another reason that people fight wars is that they are afraid of being invaded, and they believe that they can be safer by conquering dangerous enemies on their borders, than by waiting to be attacked.... Or people fight wars because they have been fighting them, and it is very hard to stop once you get started. You get started fighting people in order to protect your own boundaries, or because you have been invaded, but then suppose you win? There you are with all these soldiers, trained killers with spears and swords and armour. It's hard to tell them you're going to stop paying them now, and please go home quietly. They're liable to take that badly.”

Ancient Warfare at www.HistoryforKids.org

Is this an accurate account of the main causes of violent conflict? Explain.

6. If institutional differences are the main cause of cross-country variations in *per capita* GDP, does this mean that Political Science has more to say than Economics about economic growth? Explain.

7. “What is it which prompts the generous, upon all occasions, and the mean upon many, to sacrifice their own interests to the greater interests of others? ... It is reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter of our conduct. It is he who, whenever we are about to act so as to affect the happiness of others, calls to us, with a voice capable of astonishing the most presumptuous of our passions, that we are but one of the multitude, in no respect better than any other in it; and that when we prefer ourselves so shamefully and so blindly to others, we become the proper objects of resentment, abhorrence, and execration.”

The Theory of Moral Sentiments by Adam Smith

Has any economist since Adam Smith had anything useful to add to this? Explain.

8. Is the correlation of fiscal variables with the timing of elections evidence for Richard Nixon’s claim that “nobody ever lost an election underestimating the intelligence of the voter”? Explain.

9. Why do we say “banana republic” and not “potato republic”?