SEMINAR IN POLITICAL ECONOMY

Economic and political processes are intricately intertwined not only for the obvious reasons that political institutions and actions frame and constrain economic activity, while economic conditions influence the sustainability of political institutions, but at a deeper level because economic activity contains its own political logic, and vice versa. This course begins with the premise that many economic interactions are “political” in the sense that coalitions of participants, whose interest may differ, can influence important economic, or market, outcomes. In this regard, the course will explore tendencies toward competition, cooperation, and conflict, and their relationship to economic constraints imposed by the forces of supply and demand in addition to constraints imposed by norms concerning fairness, as they operate in various market and institutional arenas, such as labor markets or a national economy. The course will examine relevant theories of incomplete contracting under conditions of imperfect information with some attention to imperfect and asymmetric information, transactions costs, reciprocity relationships and game theory. It will proceed to apply these concepts to contemporary problems concerning employment, economic growth, and the distribution of income and wealth.

Now at last we are setting ourselves seriously to inquire whether there should be any so-called “lower classes” at all: that is, whether there need be large numbers of people doomed from their birth to hard work in order to provide for others the requisites of a refined and cultured life; while they themselves are prevented by their poverty and toil from having any share or part in that life. . . The question cannot be fully answered by economic science. For the answer depends partly on the moral and political capabilities of human nature . . . But the answer depends in a great measure upon facts and inferences, which are within the province of economics; and this it is which gives to economic studies their chief and their highest interest.

There is a large arbitrary element in the relative rates of remuneration, and the factors of production get what they do, not because in any strict sense they precisely earn it, but because past events have led to these rates being customary and usual.
   -- John Maynard Keynes

[No system of wages] … when it is called into question, will ever be found to be fair . . . the system of wages should be well established, so that it has the sanction of custom. It then becomes what is expected; and (admittedly on a low level of fairness) what is expected is fair."
   -- John Hicks
Readings:

At Book Store:


Placed on Library Reserve (* = e-reserve)

Available though JSTOR:


**EVALUATION AND ASSIGNMENTS:** Students will be evaluated on written work, formal oral presentations and general classroom discussion.

Written assignments will include two group discussion papers (two pages), two short papers (4-5 pages each), one initial research project thesis statement and outline (two pages), one “long” research project thesis and outline (3-5 pages), and a research paper (15-20 pages). Papers must be written clearly and concisely and must be drafted at least twice before turning in. Students will be evaluated on clarity of written presentation as well as on content.

Formal oral assignments on specific course readings will consist of various panel presentations and debates. Students will also present their research projects orally.

Attendance is required. Students are expected to actively participate in class discussion. Students will receive a midterm oral evaluation as well as evaluations on many of the formal oral projects.
I. Micro, Social, and Political Foundations of Political Economy

“The main weakness of previous theories that stress the importance of distributive questions has been the lack of microfoundations, or the mechanisms by which institutions emerge and change.” – Jack Knight

“What is missing from the policy analyst’s tool kit – and from the set of accepted, well-developed theories of human organization – is an adequately specified theory of collective action whereby a group of principals can organize themselves voluntarily to retain the residuals of their own effort.” – Elinor Ostrom

A. Introduction – Political Economy, Institutional, and Neoclassical Economics: Week 1

- Bowles, “What Markets can and cannot do” Interview*
- Basu, Chapter 1; North, Chapter 1; Schelling, Chapter 1; Worksheet on political economy

B. Individuals, Strategic Behavior, and Collective-Action Problems: Weeks 2 - 3

1. Elementary game theory and its relation to public goods, common pool resources, externalities and, more generally, collective-action problems

- Edwin Mansfield and Gary Yohe: Chapter 13 on Game Theory
- Basu, Chapter 2, “Games and Misdemeanors,”
- Review Mankiw, Chapters 10 and 11 on externalities, public goods and common pool resource problems.

2. Individual Rationality and Behavior

- North, Chapter 3, “The behavioral assumptions in the theory of institutions,”

3. Interdependence, cooperation, and collective-action problems

- North, Chapter 2: “Cooperation: the theoretical problem,”
- Olson, Chapter 2, “The Logic”*

Related Readings:

Dixit and Skeath, Chapter 11, “Collective-Action Games.”
C. Reciprocity, Social Norms and Coordination: Weeks 3 - 5

1. Reciprocity:
   - Fehr and Gächter, “Fairness and Retaliation: The Economics of Reciprocity,”

2. Conventions and social norms as solutions to coordination & collective action problems:
   - Young, “The Economics of Convention.”
   - Elster, Jon, “Social Norms and Economic Theory,”

3. Social norms and economic transactions
   - Basu, Chapter 4, “Social Norms, Culture and Beliefs”
   - Kirchler, Erich, Ernst Fehr and Robert Evans, “Social exchange in the labor market: Reciprocity and trust versus egoistic money maximization,”
   - Application: Bewley, Chapter 4, “Morale,”

4. Coordination and Critical Mass
   - Schelling, Chapter 3
   **First Short Paper, Monday, Sept. 26**

5. Norms and identity
   - Akerlof & Kranton, “Economics and Identity,”
   - Akerlof & Kranton, “Identity and the Economics of Organization,”
   **Research Paper Topic Paragraph Sept. 28**

D. Institutions and Economics: Week 6

1. Transactions costs, institutions -- informal and formal -- and problems of enforcement
   - North, Chapters 4 - 7,

2. Law and economics
   - Basu, Chapter 5, “Law and Economics”
   - Milgrom and Roberts (selections) on principal-agent problems

E. Power and Redress in Political Economy: Weeks 7-8

1. Principal-agent Problems and Contested Exchange:
   - Bowles and Gintis, “Power and Wealth in a Competitive Capitalist Economy,”
   - Handout on effort models; Handout on principal-agent problems
2. Power, coercion and influence
   • Basu, Chapter 6

3. Mechanisms for redress: exit and voice
   • Albert O. Hirschman, Exit, Voice and Loyalty, chapters 1-4, 7, and Appendix A, B.

**Initial Thesis Statement, Outline and Bibliography for Research Paper
Due Wednesday, Oct. 12**

Related Readings:

Bowles, Samuel, *Microeconomics*, chapters 7 and 8
Dufwenberg, Martin and Georg Kirchsteiger, “Reciprocity and wage undercutting,” *European Economic Review*, 44(4-6), May, 2000, 1069-78.
Milgrom and Roberts, chapters 6-8

II. The Political Economy of Growth and Distribution: Weeks 9 - 11

A. Distribution, Institutional Evolution and Economic Growth
   • Knight, Chapter 2, “The primary importance of distributional conflict.”*
   • Acemoglu, Johnson and Robinson, “Institutions and the Fundamental Cause of Long-Run Growth,” NBER Working Paper 10481

   **Long Outline, Thesis & Bibliography due Wednesday, Nov. 2**
   (Meet with me at least a week in advance of this date)

B. Income Inequality and Economic Growth
   • Phillipe Aghion, Eve Caroli and Cecilia Garcia-Penalosa, “Inequality and Economic Growth: The Perspective of the New Growth Theories.”*

Related Readings:

Ziera, Joseph, “Machines and Economic Growth,” *Quarterly Journal of Economics*, Nov. 1998, pp. 1091-1117. (This article is difficult.)

C. Trends in Inequality in the Income Distribution in the U.S.


**Second Short Paper due Monday, Nov. 14**

D. Policy and distribution:

- Bowles, Samuel and Herbert Gintis, “Asset Redistribution”*
- Hausman, Daniel, “Problems with Supply-Side Egalitarianism,”

Related Readings:
Krugman, Paul, *The Age of Diminished Expectations*, Chapters 15-17

VI. Student Presentations of Research Papers – Nov. 21 – Dec. 5.

***Draft of Research Paper due Monday, Nov. 21***

Concluding Session, Wednesday, Dec. 7

**** FINAL PAPER DUE at Noon, FRIDAY, Dec. 9****

(You know this now and you know the end of the semester will be busy. This is true for everyone; I expect the papers on time.)