This is a second year Ph.D. course in Political Economy. The purpose of the course is to introduce doctoral students to the field of political economy while at the same time introducing students to a wide range of empirical methods.

Before there was “economics” and “political science”, there was political economy. In the past 20-30 years, there has been a substantial literature in what is now called positive political economy. Until 10 years ago, this literature was primarily theoretical. However, empirical political economy has been a very active field of research in the past 10 years.

There are two ways in which ‘political economy’ is used. The first is as the study of interactions between the economy and the political system. The second use of political economy is the use of economics methods (models and econometrics) to answer political questions.

Political Economy is divided into two distinct areas:

1. Theoretical Work – Models, usually of individual actors interacting with economic and political institutions
2. Empirical Work – Applied Econometrics

The current course will consider the second of these. However, other courses taught in both the fall and the spring will cover the first. In the field of political science, political economy models are usually referred to as rational choice models.

In terms of empirical work, there are many different approaches. The first approach is the approach that this course will mostly focus upon. This is the natural experiment approach where existing data is used to identify causation. The second approach is the experimental approach. In this approach, data is created in order to identify causation. There are two types of experiments: field and laboratory. I will cover the former. Lastly, there is the structural approach where data is used to estimate parameters of models. There is less focus on causation. It is my view that empirical should always be concerned with causal identification. However, most questions are difficult to causally answer in a satisfactory way. I do believe that there is a tradeoff between importance of a topic and ability to identify causation. The course will therefore discuss a wide range of papers, some of which are very convincing in terms of their identification (i.e. the impact of different strategies to turn out voters) and others which attempt seriously, though with less success, to address causation on very difficult and important topics (i.e. the impact of institutions on growth).
The course will cover many topics:

Broadly, we will begin by examining what I call "Micro Political Economy" where we look at the determinants of individual political behavior such as turnout and partisanship. In a second portion of the course, we look at the impact of political institutions on political and economic behavior. Finally, in the last section of the course, we look at the impact of political institutions on macro-level phenomenon such as economic development and conflict.

We begin with political preferences. Preferences interact with economic and political institutions, leading to social outcomes. We will discuss what constitutes an appropriate model for preferences and how preferences are formed. This includes preferences over whether or not to vote, preferences over who to vote for (partisanship), and preferences over ideology. While dealing with these topics, we will introduce the experimental method, ordinary least squares estimation (OLS), and matching estimators.

We then will turn to politician preferences. A large theoretical literature claims (the Downsian competition literature) that policies are determined by voters, not politicians. However, there is a large body of recent work that shows that candidate gender, race, and political views all may affect the policies they support as well as the policies that are implemented by the political system. In this section of the course, we will introduce event study analysis and the regression discontinuity estimator.

Having looked at voter preferences and politician preferences, we will then turn to a third important force on political outcomes: the impact of money in politics (i.e. special interest politics). Here, we will introduce fixed effects estimation.

One way for money to influence politics is by disseminating information. However, a theoretical literature claims that in the long run, rational (in the sense of rational expectations) decision makers should not be influenced by a biased source of information. We will discuss the impact of the media on preferences. There is a large debate on whether the media is demand or supply driven. In this part of the course, we will introduce random effect estimators, instrumental variables, a generalization of the IV estimator called the control function approach, and non-independence of errors.

We then will look at how incentives within the political system impact the performance of politicians. As part of this, we will look at how politicians may use debt to influence future politicians. We will also discuss stylized facts about macro political economy (the so-called political business cycle).

Then we will begin our study of the impact of political institutions. We begin with a discussion of individual versus institutions. We look at the long run impacts of individual leaders on the degree of democracy, war, and economic growth.

We then discuss the institutional impacts of voting rules. In particular, we will look at majoritarian versus proportional systems, representative democracy and the secret ballot.
We then turn to the political determinants of growth. In particular, we consider the role of slavery, colonialism, and economic property rights on growth. There is a large literature in both political science and economics on the impact of democracy on growth, with some saying that growth leads to democracy and others saying that democracy leads to growth. We will also look at this literature.

One of the possible reasons for slow growth is violence. A large literature both in political science and in economics looks at the causes of violence. We will focus on the economic determinants of civil conflict. We will also discuss weak instrumental variable problems.

Lastly, we look at international relations. We will consider the impact of being a member of the UN security council on bilateral aid.

If there is time, we will also look at alternative distributional assumptions on functional form.

**Course Requirements:**

The only requirements for the course are class participation and an original final research paper on empirical political economy. The purpose of the research paper is for you to work on something which could end up being a part of your dissertation.

**Papers**

(papers with two ** will be read in depth, papers with one * will be discussed in less depth, and papers with no stars are additional relevant literature)

I. Preferences (Weeks I-II)


New Statistical Tools: Randomized Experiments
Matching
Structural Estimation

II. Preferences: Ideology and Partisanship (Week III)


New Statistical Tools: OLS/Natural Experiments

III. Preferences of politicians (Week IV)


New Statistical Tools: Event Study Methodology

IV. Partisanship and Policy Outcomes (Weeks V-VI)


New Statistical Tools: Regression Discontinuity

V. Money and Political Influence (Week VI)


New Statistical Tools: Fixed Effects

VI. Media, Information and Ideology/Partisanship (Weeks VI-VII)


New Statistical Techniques: Random Effects
Instrumental Variables
Control Function
Clustered Errors

VII. Politician Incentives (Week VIII)


VIII. Individuals Versus Institutions (Week IX)


IX: Political Institutions: Forms of Government and Voting Rules (Week X)


X. Institutions and Growth (Weeks XI-XII)

Growth and Development


http://www.nyu.edu/fas/institute/dri/Easterly/File/artificialstatesNBER.pdf


XI. Democracy and Growth (Week XIII)


XII. Resource Curse and Violence (Week XIV)


** Guidolin, Massimo and Eliana La Ferrara, "Diamonds Are Forever, Wars Are Not. Is Conflict Bad for Private Firms?”, forthcoming American Economic Review. 
http://www.igier.uni-bocconi.it/whos.php?vedi=1189&tbn=albero&id_folder=177

New Statistical Tools: Weak Instruments

XIII. International Politics & International Relations (Week XV)

Additional Methodological Paper: