

Econ 756 - Empirical Political Economy

Spring, 2012

University of Maryland, College Park

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)

** Gerber, Alan and Donald Green (September, 2000), "The Effects of Canvassing, Telephone Calls, and Direct Mail on Voter Turnout: A Field Experiment", *American Political Science Review* Vol. 94, Num. 3, pp. 653-663.

** Imai, Kosuke (May, 2005), "Do Get-Out-the-Vote Calls Reduce Turnout? The Importance of Statistical Methods for Field Experiments", *American Political Science Review* Vol. 99, Num. 2, pp. 283-300.

** Gerber, Alan, Donald Green and Christopher Larimer (2008), "Social Pressure and Voter Turnout: Evidence from a Large-Scale Field Experiment", *American Political Science Review*, Vol. 102 (1), pp. 33-48.

** Coate, Stephen and Michael Conlin (2004), "A Group Rule: Utilitarian Approach to Voter Turnout: Theory and Evidence", *American Economic Review*, Vol. 94 (5), pp. 1476-1504.

* Duflo, Esther, Rachel Grennerster, and Michael Kremer, "Using Randomization in Development Economics Research: A Toolkit", working paper, <http://econ-www.mit.edu/files/806>

New Statistical Tools: Randomized Experiments
 Matching
 Structural Estimation

II. Preferences: Ideology and Partisanship (Week III)

* Alesina, Alberto and Nicola Fuchs-Schundeln (2007), "Good Bye Lenin (Or Not?): The Effect of Communism on People's Preferences", *American Economic Review*, 97(4).

* Mullainathan, Sendhil and Ebonya Washington (2009), "Sticking with Your Vote: Cognitive Dissonance and Political Attitudes," *American Economic Journal: Applied Economics*, Vol. 1(1), pp. 86-111.

* Greg Duncan, Johanne Boisjoly, Michael Kremer, Dan Levy, and Jacque Eccles (2006), "Empathy or Antipathy? The Consequences of Racially and Socially Diverse Peers on Attitudes and Behaviors," *American Economic Review*, Vol. 96(5), pp. 1890-1906.

* Cliningsmith, David, Asim Khwaja and Michael Kremer (2008), "Impact of the Hajj", working paper.

New Statistical Tools: OLS/Natural Experiments

III. Preferences of politicians (Week IV)

* Chattopadhyay, Raghavendra and Esther Duflo (2004), "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India," *Econometrica* Vol. 72(5): 1409-1443.

* Washington, Ebonya (2006), "How Black Candidates Affect Voter Turnout," *Quarterly Journal of Economics*, 2006, pp. 121 (3).

** Fisman, Raymond (2001), "Estimating the Value of Political Connections." *American Economic Review* Vol. 91 (4), pp. 1095-1102.

Pande, Rohini, "Can Mandated Political Representation Provide Disadvantaged Minorities Policy Influence? Theory and Evidence from India," *American Economic Review*, September 2003, Vol. 93(4): pp. 1132-1151.

Edlund, Lena and Rohini Pande (August, 2002), "Why Have Women Become Left-Wing? The Political Gender Gap and the Decline in Marriage," with L. Edlund, *Quarterly Journal of Economics*, Vol. 117: 917-961.

Washington, Ebonya (2008), "Female Socialization: How Daughters Affect Their Legislator Fathers' Voting on Women's Issues," *American Economic Review*, 2008, Vol. 98(1), 311-332.

New Statistical Tools: Event Study Methodology

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

** Lee, David S., Enrico Moretti and Matthew Butler (2004), "Do Voters Affect or Elect Policies? Evidence from the U.S. House ", Vol. 119(3).

* Lidbom, Per Petterson (2008), "Do Parties Matter for Economic Outcomes: A Regression-Discontinuity Approach," *Journal of the European Economic Association*, Volume 6, Issue 5, 1037–1056, 2008.

* Gyourko, Joseph and Fernando Ferreira (2009), "Do Political Parties Matter? Evidence from Cities", *Quarterly Journal of Economics*, Vol. 124 (1), pp. 349:397.

* Imbens, Guido and Thomas Lemieux (February, 2008), "Regression Discontinuity Designs: A Guide to Practice", *Journal of Economictrcs*, Vol. 142(2), pp. 615-635.

New Statistical Tools: Regression Discontinuity

V. Money and Political Influence (Week VI)

** Levitt, Steven (1994), "Using Repeat Challengers to Estimate the Effect of Campaign Spending on Election Outcomes in the U.S. House", *Journal of Political Economy* Vol. 102, Num. 4, pp. 777-797.

New Statistical Tools: Fixed Effects

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

** Gentzkow, Matthew and Jesse Shapiro (2006), “*What Drives Media Slant? Evidence from U.S. Daily Newspapers*”, working paper.

** Eisensee, Thomas and David Stromberg (May, 2007), “News Floods, News Droughts, and U.S. Disaster Relief”, *Quarterly Journal of Economics*, 122(2), 2007.
<http://www.iies.su.se/~stromber/Disasters.pdf> (use the working paper version).

* Snyder, James and David Stromberg (2008), “Press Coverage and Accountability”, working paper.

* Bjorkman, Martina and Jakob Svensson (forthcoming), “Power to the People: Evidence from a Randomized Field Experiment of Community-Based Monitoring in Uganda”, *Quarterly Journal of Economics*.

Stromberg, David (2004), “Radio's Impact on Public Spending”, *Quarterly Journal of Economics*, Vol. 119(1), 2004.

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

VII. Politician Incentives (Week VIII)

** Besley, Timothy and Anne Case, “Does Electoral Accountability Affect Economic Policy Choices? Evidence from Gubernatorial Term Limits”, Vol. 110, Num. 3, pp. 769-798.

** “An Empirical Investigation of the Strategic Use of Debt” (2001), *Journal of Political Economy*, 109, pp. 570-84.

VIII. Individuals Versus Institutions (Week IX)

** Jones, Ben and Ben Olken, “Hit or Miss? The Effect of Assassinations on Institutions and War”, working paper. <http://www.nber.org/~bolken/assassinations.pdf>

* Jones, Ben and Ben Olken, “Do Leaders Matter? National Leadership and Growth since World War II” Vol. 120(3) pp. 835-864.

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

** Pettersson-Lidbom, Per and Björn Tyrefors, “The Policy Consequences of Direct versus Representative Democracy: A Regression Discontinuity Approach”, working paper.

<http://people.su.se/~pepet/directdem.pdf>

** Aghion, Philippe, Alberto Alesina and Francesco Trebbi (2008), Electoral Rules and Minority Representation in US Cities, *Quarterly Journal of Economics*, February, Vol. 123(1): pp.325-357.

** Baland, Jean-Marie and James A. Robinson (2008), “Land and Power: Theory and Evidence from Chile,” *American Economic Association*, pp. 1737-65.

X. Institutions and Growth (Weeks XI-XII)

Growth and Development

** Feyrer, James and Bruce Sacerdote, “Colonialism and Modern Income: Islands as Natural Experiments”, working paper.

<http://www.dartmouth.edu/~jfeyrer/islands.pdf>

** Banerjee, Abhijit, and Lakshmi Iyer. "History, Institutions and Economic Performance: the Legacy of Colonial Land Tenure Systems in India." *American Economic Review* 95, no. 4 (September 2005): 1190-1213.

** Acemoglu, Daron, Simon Johnson and Jim Robinson (December, 2001), “The Colonial Origins of Comparative Development: An Empirical Investigation”, *American Economic Review*, Vol. 91, pp. 1369-1401.

* Albouy, David, “The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data”, revised and resubmit at the *American Economic Review*.

<http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1055&context=iber/cider>

* Acemoglu, Daron, Simon Johnson and James A. Robinson, “Reply to the Revised (May, 2006) version of David “The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data”, working paper.

<http://econ-www.mit.edu/files/212>

* Besley, Timothy and Torsten Persson (forthcoming), “The origins of state capacity: Property rights, taxation, and policy”, *American Economic Review*.

* Nunn, Nathan (2008), "The Long Term Effects of Africa's Slave Trades," *Quarterly Journal of Economics*, Vol. 123(1), pp. 139-176.

Alesina, Alberto, William Easterly and Janina Matuszeski (June, 2006), "Artificial States", working paper.

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

Iyer, Lakshmi. "Direct versus Indirect Colonial Rule in India: Long-term Consequences." *The Review of Economics and Statistics* (forthcoming).

Tilly, Charles (2007), **Coercion, Capital and European States: AD 990-1992**, Wiley-Blackwell.

XI. Democracy and Growth (Week XIII)

** Daron Acemoglu, Simon Johnson, James A. Robinson and Pierre Yared (2008), "Income and Democracy", *American Economic Review*, 98(3), pp. 808-42.

* Besley, Timothy, Torsten Persson and Daniel Sturm (2006), "Political Competition, Policy and Growth: Theory and Evidence from the United States", working paper.

* Rodrik, Dani (August, 1999), "Democracies Pay Higher Wages", *Quarterly Journal of Economics*, Vol. 94, Num. 3, pp.707-738.

XII. Resource Curse and Violence (Week XIV)

** Miguel, E., S. Satyanath and E. Sergenti (2004), "Economic Shocks and Civil Conflict: An Instrumental Variables Approach," *Journal of Political Economy*, 112(4), 725-753.

** Dube, Oeindrila and Juan Vargas (2008), "Commodity Price Shocks and Civil Conflict: Evidence from Columbia", working paper.

** 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)

** Kuziemko, Ilyana, and Eric D. Werker (2006), "How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations", *Journal of Political Economy* Vol. 114(5), pp. 905-930.

Additional Methodological Paper:

Angrist, Joshua and Alan Krueger (Fall, 2001), "Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments", *Journal of Economic Perspectives* V.15 # 4, pp. 69-85.