

Political Economy

POLS 4072

Fall 2017

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Office Hours: Tue. & Thu. 11:00 - 12:00, or by arrangement

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Political economy is the study of how governments affect people's economic wellbeing, and how in turn economic conditions affect government policy and even survival. This course starts with the assumption that individuals in the market and in government behave rationally. This assumption is used to explain important aspects of elections, Social Security, and economic, environmental, and tax policy. The conclusions we reach about politics in these areas are not only interesting in their own right but often contradict what ordinary intuition might suggest. Moreover, by tracing the rationality assumption through to its logical consequences, students should develop a better understanding of how institutions work and why particular policies fail or succeed. A background in economics is *not* a prerequisite for this course.

These required books are available at the University Bookstore:

Michael C. Munger, *Analyzing Policy* [M]

Melissa Hardy and Lawrence Hazelrigg, *Pension Puzzles* [HH]

The following is a guide to the assignments. The date given is the date due. Note that the course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

I. Introduction

August 15

II. The Market, Technocrats, and Democracy

August 17: M, Ch. 3

August 24: M, Ch. 7 (you can skip pp. 217-21 and 225-28; note: Figure 7.14, top two panels are incorrect)

August 31: M, Ch. 4 (note: the book's answer to Q. 4.b is incorrect)

September 12: M, Ch. 6

III. Skill Building: Discounting for Risk and Time

September 19: M, Ch. 9 (you can skip pp. 286-307)
September 28: M, Ch. 10 (you can skip pp. 337-42; also see
corrections on p. 3 below)
October 10: M, Ch. 11

October 12: FIRST EXAM

October 17: Exam Returned

IV. Policy Application: Social Security

October 19: HH, Ch. 1; M, pp. 271-79
October 24: HH, Ch. 2
October 26: HH, Ch. 3
November 2: HH, Ch. 4; M, pp. 227-28 and 337-42
November 9: HH, Ch. 5
November 16: HH, Ch. 6
November 28: HH, Ch. 7, pp. 198-213

December 1: Conclusion

December 4: PAPER DUE (by 5:00 PM)

December 12 (8:00-9:30 AM): SECOND EXAM

Paper

You should select an article, collection of articles, blog post or series of blog posts, book, or book chapter, not assigned in class, that *argues* for some particular policy as a solution to some political economic problem (crime, pollution, healthcare, or army recruitment, for example). Your task is to criticize this argument *using the political economy perspective studied in class*. Your aim, in other words, is *not* to provide a summary of the additional reading but a critique of it. You should demonstrate in particular that the proposal does not adequately recognize the consequences that ensue if individuals do in fact behave rationally. Argue that the proponent does not fully appreciate the costs of such a policy and/or that because people are rational the results will be contrary to what the proponent expects. Be sure then to select a reading that is appropriate for the particular assignment. Note that you should criticize the proposal as being a weak proposal even if it were implemented. An appropriate criticism is *not* that the proposal could not become law for political reasons.

The purpose of the paper is to demonstrate your ability to apply the academic material from this course to an issue of general and genuine concern. It will be graded based on the extent to which the paper reflects the analytical approach studied in class, the depth of your criticisms, the clarity of your argument, and the fairness with which you represent the author's views.

The paper must be typed and should run 4-5 double-spaced pages. Everything quoted or otherwise used should be properly cited in the paper, including the author(s), title, publisher for books, journal name and volume number for articles, or web address for net documents, and page numbers. **If you analyze an article, book chapter, or item from the net you should also attach a copy. Any paper handed in late, but before 4:30 PM on my sister's birthday (which, if you don't know, is December 4, 2017), will lose 10 points. Any paper later than that will be treated as though the assignment were not completed. Please do not use covers or email me your paper. Instead, your paper can be placed in my mailbox, which is located in the Political Science Department Office, 180G Baldwin Hall (new extension), or brought to my office in 308 Baldwin Hall.**

Grades

Your grade for the semester will be based on a weighted average of the grades on your first exam (35%), second exam (40%), and your paper (25%). The exams are not cumulative. Your numerical course average will be adjusted upward by 0 to 3 points based on the quality of your class participation.

The final calculation of your course grade is based on:

$92 \leq \mathbf{A} \leq 100$; $90 \leq \mathbf{A-} < 92$; $87 \leq \mathbf{B+} < 90$; $82 \leq \mathbf{B} < 87$; $80 \leq \mathbf{B-} < 82$;
 $77 \leq \mathbf{C+} < 80$; $70 \leq \mathbf{C} < 77$; $68 \leq \mathbf{C-} < 70$; $60 \leq \mathbf{D} < 68$; $\mathbf{F} < 60$.

No make-ups will be given unless a legitimate excuse for absence is presented and accepted prior to the exam.

Finally, all academic work must meet the standards contained in "A Culture of Honesty." Students are responsible for informing themselves about those standards before performing any academic work. If there is any doubt in your mind concerning the application of some regulation, you should see me. Otherwise assume the broadest interpretation of dishonesty.

Corrections to M, Ch. 6

Munger claims on p. 170 that "'Med., Gen.' defeats all the other alternatives." This is incorrect: 'En., Club' beats it. There is in fact no across-the-board winner.

Corrections to M, Ch. 10

There are several serious typos in this chapter.

1. The expression at the bottom of p. 330 should be:

$$PV_1 = \sum_{t=1}^{20} \left[\frac{\$1000}{(1+0.10)^t} \right] = \$8,513.56$$

2. The statement at the top of p. 332 should be:

$$\text{If } 0 < \rho < 1, \text{ then } \lim_{N \rightarrow \infty} \sum_{i=1}^N \rho^i = \frac{\rho}{1-\rho}.$$

3. The equation at the top of p. 336 should be:

$$\text{Net } PV = \underbrace{-2m - \frac{2m}{1+d}}_{\text{Construction costs}} + \underbrace{\frac{500k}{(1+d)^2} - \frac{50k}{(1+d)^2}}_{\text{Year 3}} + \underbrace{\left(\frac{100k-50k}{d} - \sum_{t=1}^2 \frac{100k-50k}{(1+d)^t} \right)}_{\text{Permanent benefits and maintenance costs, after years 1-3 (subtracted)}}.$$

4. In Figure 10.1, p. 338, the IRR for Project 1 is the IRR for Project 2 and vice versa.

5. On p. 349 the equation after “Subtract the second expression from the first” should be:

$$1 - \frac{1}{1+d} PV = \frac{1}{1+d} \left(1 - \frac{1}{(1+d)^N} \right).$$

6. The equation on the top of p. 350 should be:

$$PV = \frac{1 - (1+d)^{-N}}{(1+d) \left(\frac{1+d-1}{1+d} \right)}.$$

7. The answer given in the text to problem 1a, p. 347 is:

$$\sum_{i=6}^{15} \frac{\$500}{(1.15)^i} - \$1000 = \$247.60.$$

Therefore, the analogous answer to problem 1b should be:

$$\sum_{i=1}^3 \frac{\$500}{(1.15)^i} - \$1000 = \$141.61.$$

And the analogous answer to problem 1c should be:

$$\sum_{i=1}^{\infty} \frac{\$200}{(1.15)^i} - \$1000 = \$333.33.$$