

POLI 200C - Spring 2009
Monday 9:00AM-11:50AM
Social Sciences Building, Room 104

States and Markets

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Office Hours: Wednesday 10:00AM-12:00PM, office SSB #365.

Objectives

This is an introductory course in political economy. Its aim is to provide students with basic concepts and tools necessary to carry out research in this field. The connection between politics and economics is in the forefront of research among political scientists. This research program covers not only formal models of the effect of political decision-making on economic outcomes, but also the use of the analytical tools of economics to analyze political processes themselves.

The central question addressed by this course how decentralized and centralized mechanisms (i.e. markets and governments) allocate resources and distribute incomes. The course makes use of the formal and technical tools of modern economic analysis to study how politics affects economic outcomes. This analysis is used not just in the formal sense of a mathematical approach; it is also conceptual, viewing political phenomena in terms of optimization, incentives, constraints, etc.

Class sessions will be conducted as seminars led by the instructor. Often the instructor will present material based on the more difficult readings. The pace of this course will be fast. Each week students are expected to read the accompanying chapter in the course textbook, study a model, and read some background materials (as indicated in the textbook). The mathematics will not be difficult. However, some basic knowledge of elementary calculus and of microeconomics is recommended.

Students are expected to take a final examination at the end of the term. The exam accounts for 75 % of the final grade. Class participation accounts for the remaining 25 %.

Theories and Models

Each week we will try to address very complex issues using relatively simple models. In particular, we will attempt to engage in theoretical exercises of abstraction, ignoring many details in order to focus on the most important elements of the problem. With his inimitable fiction, Argentinean writer J. L. Borges illustrated in “Funes the Memorious” the importance of generalization and abstraction in thought and science:

“ He had learned, without effort, English, French, Portuguese, Latin. I suspect, however, that he was not very capable of thinking. To think is to forget differences, to generalize, to abstract. In the over stocked world of Funes there was nothing but details, almost immediate details”

In a similar vein, Paul Krugman argues that the utility of modeling stems from useful simplification:

<http://web.mit.edu/krugman/www/dishpan.html>

On the other hand, as Henri Theil observed, “Models should be used, not believed” (cited in *Paper Stones* by Przeworski and Sprague). And, as these authors note, models “...are not simplified versions of a complex reality but instruments to be used in analyzing complex situations...” Moreover, there is no such thing as the right degree of abstraction for all analytic purposes. The proper degree of abstraction depends on the issue under consideration. In fact, it may well be the case that a few simplistic assumptions will not be sufficient to reconstruct the complexity of some of the topics covered in this class. And, while we should not necessarily expect our models to fit each and every aspect of reality, we should revise or abandon a theory if it does not withstand a confrontation with our empirical observations. Therefore, it is very important that you learn how to evaluate a model, from its overall logic to its constituent assumptions.

Course Policies

Academic Integrity. Students in this course are expected to comply with UCSD’s Policy on Integrity of Scholarship. In particular, plagiarism is considered a dishonest practice and a serious academic offense. Hence, there will be a zero tolerance policy with respect to these practices: any student violating the obligation of academic integrity during the term will automatically fail the class. Copies of the current version of the UCSD Policy on Integrity of Scholarship, also commonly referred to as the Academic Dishonesty Policy, may be found on the Academic Senate webpage: <http://www-senate.ucsd.edu/AcademicIntegrity/AcademicIntegrity.htm>

Disabilities. If you have a disability that requires special testing accommodations or other classroom modifications, you need to notify both me and the Office for Students with Disabilities (OSD). You may be asked to provide documentation of your disability to determine the appropriateness of accommodations. To notify the OSD, call (858) 534-4382 to schedule an appointment.

Required Text

Przeworski, Adam. 2003. *States and Markets: A Primer in Political Economy*. New York: Cambridge University Press.

Course Outline

Introduction

Week 1 (March 30): Introduction

Allocation Mechanisms. Political-economic Equilibria. Walrasian Market. Market Failures. Transaction Costs: *States and Markets*, Ch. 1 & 2.

Decentralized Mechanisms

Week 2 (April 6): Incomplete Markets, Imperfect Information

Causes of Market Incompleteness. Consequences of Missing Markets: *States and Markets*, Ch. 3.

Week 3 (April 13): Principal-Agent Framework

Risk Postures, Utility Functions, and Risk Allocation. Imperfect, Symmetric, Verifiable Information: *States and Markets*, Ch. 4.

Centralized Mechanisms

Week 4 (April 20): The State

Demand for Coercion. Forms of State. Collective Decision Making. Delegation and Implementation: *States and Markets*, Ch. 5.

Week 5 (April 27): Regulation

A General Model of Regulation. Regulatory Capture. Competing Interests. Money and Politics.: *States and Markets*, Ch. 6.

Week 6 (May 4): Oversight

Political Uses of Public Power. Checks and Balances. Insulated Bureaucracies. Politics and Administration: *States and Markets*, Ch. 7.

Week 7 (May 11): Representation

A Simple Model of Electoral Accountability. Voters' Control over Politicians: *States and Markets*, Ch. 8.

The State and the Economy

Week 8 (May 18): Economic Growth

Mechanics of Growth. Optimal Growth. Politics of Economic Growth. The Barro Model: *States and Markets*, Ch. 9

Week 9 (May 25): Redistribution

Preferences for Equality. Positive Theories of Redistribution. Party Competition. Democracy and Efficiency *States and Markets*, Ch. 10.

Week 10 (June 1): Insurance

Justifications of the Welfare State. Risk Pooling and the Welfare State. Endogenous Provision of Compulsory Insurance: *States and Markets*, Ch. 11.