



北京大學
汇丰商学院

Peking University HSBC Business School

ECON543

Political Institutes and Economic Development Module 4, 2016-2017

Course Information

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Office Hour: Friday 17:30-19:30 or by appointment

Teaching Assistant: TBA

Classes:

Lectures: Tuesday & Friday 15:30-17:20

Venue: PHBS Building, Classroom TBA

1. Course Description

1.1 Context

This course introduces students various microeconomic theories to rigorously analyze political decision mechanisms of various policies and political systems which eventually affects development and economic growth, deviating from the conventional economic theories which assume that the government decisions are exogenously given or made by social planner without political process. This course aims to cover not only some basic workhorse models of political economics but also the intuition behind them. By theoretically analyzing how a society decides economic policies that pave different paths of economic development, this course may provide analytical tools to address following questions. How do various political institutions around the world make a difference in policy making? Why do some governments employ policies that hinder development? How does political accountability affect policy making? Knowledge of basic microeconomic analysis such as utility maximization, indirect utility and the like is necessary (prerequisite) and knowledge of game theory is recommended albeit not mandatory.

1.2 Textbooks and Reading Materials

Main Textbook

[1]“Political Economics: Explaining Economic Policy” by Torsten Persson and Guido Enrico Tabellini, MIT Press

[2]“Political Economy in Macroeconomics” by Allan Drazen, Princeton University Press

Complementary Textbook

[1]“The Political Economy of Reform: Lessons from Pensions, Product Markets and Labour Markets in Ten OECD Countries” by William Tompson and Robert Price, OECD Publications

[2]“The Economic Effects of Constitution” by Torsten Persson and Guido Enrico Tabellini, MIT Press

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.
	2.2. Students will be able to apply leadership theories and related skills.
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.
	3.2. Our students will practice ethics in the duration of the program.
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.
	5.2. Our students will be prepared to face problems in various business settings and find solutions.
	5.3. Our students will demonstrate competency in critical thinking.

2.2 Course specific objectives

2.3 Assessment/Grading Details

Assessment task	Weighting	Due date
Class participation (attendance)/attitude	10%	Every class
Problem sets	30%	TBA
Exam	35%	June 13th
Presentation (Team Project)	25%	Last week of the class
Total	100%	

Two problem sets will be assigned (before and after the exam). The first problem set weighs 15% and the second problem set does 15%. Submission after the announced deadline is graded as zero, as a way of assessing the learning goal 3. The first problem set will be assigned as homework. The second problem set can be either homework or replaced with in class quiz instead of solving in home.

Exam will be held at June 13th Thursday in the class (15:30-17:20) as a way of assessing the learning goal 5. This will be a closed-book exam and any digital devices are not allowed to be used during the exam. For the sake of fair grading by testing with the exactly equal written exam (which weighs most among others) under the same environment, no exception for the examination date is allowed. If you have a time conflict with this midterm exam schedule, not-taking this course is strongly recommended.

Presentation (Team Project):

Instead of taking a final exam, how well you understand overall class materials will also be

tested by a team project on an application of what is discussed in the class via 30 minutes' presentation in the last week of the 4th module. This is for assessing the learning goals 1, 2, and 4. At most, by 23th of May, each team should be formed and list of team members should be submitted.

As long as relevant to the course, each team is free to choose the topic of the presentation. Examples are abundant such as (i) analysing political economic system of various countries located over the Maritime Silk Road, also known as One Belt, One Road (一帶一路), (ii) a case study on an economic reform of privatization, (iii) response of stock market to an election outcome and the like.

By the 13th of June, short proposal of the presentation (up to seven pages) is to be submitted. The presentation has to have clear research question, concrete research method, and accurate sources (citation). The outcome should be original not copy other's work. As a penalty for plagiarism, both the grade for team project (25%) and the grade for class participation (10%) will be zero, as a way of assessing the learning goal 3. By the same reason, as a penalty for cheating during the midterm exam, both the grade for midterm exam (35%) and the grade of class participation (10%) will be zero. Both misconducts will be reported to the PHBS Discipline Committee.

At the presentation in the last week of this module, each team should submit both the presentation slide (submission of the term paper is optional) and detailed document about each student's contribution (which part you did for presentation) for the sake of fair grading. Moreover, every member of each team should take part in presenting the team project outcome.

2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar. For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Topics & Teaching Schedule

Schedule	Topics	Lectures
1.	Introduction of the Course	Logistics, Scope and aim of the course; Overview of the course, Motivation, and Basic concepts. Main Textbook [2] Chapt 1
2.	Basic Frameworks for	How individuals' preference is aggregated to reach a

	Analyzing Political Decision of Policy	social choice of economic policies? Existence of equilibrium choice of society, Median voter theorem, Impossibility theorem Main Textbook [1] Chapt 2; Main Textbook [2] Chapt 3
3.	Policy Choices via Political Competition	Various models of selecting representative in electoral competitions, Downsian electoral competition, Probabilistic voting model, Policy convergence and divergence, Lobbying model Main Textbook [1] Chapt 3 & Chap 5
4.	Electoral Rules and Accountability of Politicians	Electoral rules and career concerns and accountability, Local election vs. national election, Majoritarian election vs. proportional election, Separation of powers with fully discretionary politicians Main Textbook [1] Chapt 4 & Chap 9; Main Textbook [2] Chapt 7
5.	Policy Choices by Legislature and Political Regimes	When several politicians decide on policy in legislative bargaining (separation of powers), how policies are selected in the face of election, Policy choices in a simple legislature, Presidential-congressional regime, Parliamentary regime Main Textbook [1] Chapt 10
6.	Political Decision of Redistributive Policies	Applying theoretical frameworks of political decision makings, Public pension, Redistribution across different regions, Policy decision on unemployment insurance Main Textbook [1] Chapt 6; Main Textbook [2] Chapt 8
7.	Political Economy of Economic Growth	Theoretical analysis on political choices affecting income inequality and political instability and who they affect economic growth Income inequality and growth, Political instability and growth, Special interests, rents, and growth, Other political determinants of growth Main Textbook [1] Chapt 14; Main Textbook [2] Chapt 11; Supplementary Textbook [1]
8.	Political Economy of Economic Reform and of Economic Crisis	Key factors underlying the economic transitions, Big bang approach and gradualism Main Textbook [2] Chapt 12 & Chapt 13
9.	Case studies (Applications): presentations	“The Political Economy of Reform: Lessons from Pensions, Product Markets and Labour Markets in Ten OECD Countries” by William Tompson and Robert Price

4. Reading Assignments

Acemoglu, Daron (2010) “Theory, General Equilibrium, and Political Economy in Development Economics,” *Journal of Economic Perspectives*, 24(3): pp.17–32.

- Baron, D. (1994) "Electoral Competition with Informed and Uninformed voters," *American Political Science Review*, 88: pp.33-47.
- Priscilla T. Y. Man and Shino Takayama (2013) "A Unifying Impossibility Theorem," *Economic Theory* 54: pp.249–271.
- Barro, Robert (1973) "The Control of Politicians: an Economic Model," *Public Choice*, 14: pp.19-42.
- Beck, Thorsten and Luc Laeven (2005) "Institution Building and Growth in Transition Economies" *World Bank Policy Research Working Paper* 3657.
- Besley, T., and Coate, S. (1997) "An Economic Model of Representative Democracy," *Quarterly Journal of Economics*, 112: pp.85-114.
- Black, D. (1948) "On the Rationale of Group Decision Making," *Journal of Political Economy*, 54: pp.249–271.
- Buchanan, J. M., and Faith, R. L. (1987) "Secession and the Limits of Taxation: Toward a Theory of Internal Exit," *American Economic Review*, 77: pp.1023-1031.
- Diermeier, D and Feddersen, T. (1998) "Cohesion in Legislatures and the Vote of Confidence Procedure," *American Political Science Review*, 92: pp.611-621.
- European Bank for Reconstruction and Development (EBRD) (2000) *Transition Report 2000*. London: EBRD.
- Fidrmuc, Jan (2000) "Economics of Voting in Post-communist Countries," *Electoral Studies* 19 (2/3), *Special Issue: Economics and Elections*, pp.199-217.
- Ferejohn, J. (1986) "Incumbent Performance and Electoral Control," *Public Choice*, 50: pp.5-26.
- Fernandez, Raquel and Rodrik, Dani (1991) "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," *American Economic Review*, 81 (5): pp.1146-1155
- Gerring, John, Strom C. Thacker, and Carola Moreno (2009) "Are Parliamentary Systems Better?" *Comparative Political Studies*, 42(3): pp.327-359.
- Hellman, Joel S. (1998) "Winners Take All: The Politics of Partial Reform in Pos-tcommunist Transitions," *World Politics*, 50:pp.203-234.
- Holmstrom, B. (1982) "Managerial Incentive Problems – A Dynamic Perspective," *Review of Economic Studies*, 66: pp.169-182.
- Iradian, Garbis (2007) "Rapid Growth in Transition Economies: Growth-Accounting Approach," *IMF Working Paper* 164.
- Huber, John. (1996) "The Vote of Confidence in Parliamentary Democracies," *American Political Science Review*, 90(2): pp.269-282.
- Keeper, Philip (2004) "What Does Political Economy Tell Us About Economic Development—and Vice Versa?" *Annual Review of Political Science*, 7: pp.247–72.
- Klaus Deininger and Lyn Squire (1997) "Economic Growth and Income Inequality: Reexamining the Links," *Finance & Development*, March: pp.38-41.
- Lindbeck, A and Weibull J. (1987) "Balance-budget Redistribution as the Outcome of Political Competition," *Public Choice*, 52: pp.273-297
- Mauro, Paolo (1995) "Corruption and Growth," *Quarterly Journal of Economics*, 110(3): pp. 681-712.
- Meltzer A. and Richard S. (1981) "A Rational Theory of the Size of Government," *Journal of Political Economy*, 89: pp.914-927.
- Saint-Paul G. (1996) "Exploring the Political Economy of Labor Market Institution," *Economic Policy*, 23: pp.265-315.