

Lecture “Economic Policy”

Syllabus

Organisation

There is a weekly lecture, complemented by a bi-weekly tutorial that deepens the topics addressed in the lecture and prepares for the exams.

Lecture: Lars Siemers, Wednesday 08:30 – 10:00, US-F 308 (weekly)

Tutorial: Benjamin Schäfer, Monday 12 – 14 c.t., US-A 120 (bi-weekly)

Course Material

Lecture slides and problem sets to the course are provided at the course’s LSF page and at the Chair’s homepage (<http://www.uni-siegen.de/fb5/ewp/readings/>). The slides can be used by the student to make additional notes during the lecture. The slides do not replace the necessity to study the relevant sections from the recommended literature! The problem sets are to be prepared before the respective tutorial, as preparation for the exam. You need a password to access the lecture material. The password will only be announced in the first lecture and will not be disclosed via email. (So please do not send emails with this query!)

Course Requirements

Students will be graded upon the results of a final exam (1 hour exam).

Content

The course aims at providing students with a basic understanding of the major issues of economic policy with a special focus on the public-choice and political-economy perspective of economic policy. That is, the focus lies on the positive analysis, where there is no social planner but self-interested politicians that implement economic policies.

I. Introduction (Persson/Tabellini, Ch. 1)

PART I: Exogenous Economic Policy

II. Exogenous Economic Policy (Mueller, Part V)

II.1 Traditional Aims of Economic Policy

II.2 Market Failures and Economic Policy

II.3 The Problem with the Social Objective Function

PART II: Endogenous Economic Policy

III. Decision-Making Mechanisms

III.1 Decision Making in Direct Democracy (Mueller, Ch. 4, 5, 6)

III.2 The Median-Voter Theorem (Mueller, Ch. 11; Persson and Tabellini, Ch. 3.3)

III.3 Probabilistic Voting (Drazen, Ch. 3; Mueller, Ch. 12; Persson and Tabellini, Ch. 3.4)

IV. Interest Groups and Special-Interest Politics (Mueller Ch. 15, 16)

IV.1 Existence and Power of Interest Groups

IV.2 Theory of Regulation

IV.3 Lobbying

IV.4 Bureaucracy

V. Redistribution, Public Debt, Inequality, and Growth (Drazen Ch. 11; Persson and Tabellini, Ch. 14)

V.1 A Model of Redistribution

V.2 Public Debt as a Dynamic Common-Pool Problem

V.3 Income Inequality and Growth: Political Economy

VI. Elections and Changes of Policy Makers (Drazen Ch. 7; Persson and Tabellini, Ch. 16)

VI.1 Political Business Cycles

VI.2 Tying the Hands of One's Replacement

VII. Dynamic Policy Problems (Drazen Ch. 4, 6; Persson and Tabellini, Ch. 11, 12)

VII.1 Dynamic Taxation and Credibility

VII.2 Public Debt Repayment

VII.3 The Time-Consistency Problem: Solutions in Monetary Policy

VIII. Inaction, Delay and Crisis (Drazen Ch. 10, 6; Persson and Tabellini, Ch. 13)

VIII.1 Status-Quo Bias

VIII.2 Delayed Stabilization: War of Attrition

Reading

The lecture is mainly geared by the text books of Mueller (2003), Drazen (2000), as well as Persson and Tabellini (2000) which are available in the library of the university. You find additional references on the list below. It is expected that the students read the respective pages in at least one of the named works. Studying the lecture/tutorial notes is usually not sufficient.

References

- Acemoglu, D. (2003). Why not a political Coase theorem?, *Journal of Comparative Economics* **31**: 620–652.
- Acemoglu, D. and Robinson, J. A. (2000). Political losers as a barrier to economic development, **90**(2): 126–130. Papers & Proceedings.
- Besley, T. (2006). *Principled Agents? The Political Economy of Good Government*, Oxford: Oxford University Press.
- Dixit, A. (1996). *The Making of Economic Policy*, Cambridge: MIT-Press.
- Drazen, A. (2000). *Political Macroeconomics*, Princeton: Princeton University Press.
- Hillman, A. (2003). *Public Finance and Public Policy*, Cambridge: Cambridge University Press.
- Mueller, D. C. (2003). *Public Choice III*, Cambridge: Cambridge University Press.
- Persson, T. and Tabellini, G. (2000). *Political Economics – Explaining Economic Policy*, Cambridge: MIT Press. There is a reprint from 2002.