

G6492: Topics in Political Economy

**Tools for Designing Policy.
Public goods provision, voting, networks, tournaments and clubs.**

The course has two objectives. The first is to expose students who plan to work in macroeconomics to ideas and tools that they may not encounter otherwise, but that can be quite useful in thinking about macroeconomic policy problems. The second, related goal is to show how these concepts can be borrowed from abstract theory and translated into plausible policy suggestions. Thus each section of the reading list includes both more abstract and more applied papers and provides a set of references for anyone interested in learning more. The class will concentrate on the first three topics. We will discuss together which of the references will be covered in detail.

a) Public goods provision.

Crawford, Vincent, (1977), "A Game of Fair Division", *Review of Economic Studies*, 44, 235-47.

Palfrey, Thomas, (2002), "Implementation Theory", *Handbook of Game Theory*.

Moore, John, (1990), "Implementation, Contracts and Renegotiation in Environments with Complete Information, in *Advances in Economic Theory, Sixth World Congress*, Vol. 1, Cambridge University Press: Cambridge, U.K..

Roth, A., (2002), "The Economist as an Engineer: Game Theory, Experimentation, and Computation as Tools for Design Economics, *Econometrica*, 70, 1341-1378.

Piketty, Thomas, (1996), "A Federal Voting Mechanism to Solve the Fiscal Externality Problem", *European Economic Review*, 40, Jan., 3-18.

Persson, Torsten and Guido Tabellini, (1992), "The Politics of 1992: Fiscal Policy and European Integration", *Review of Economic Studies*, 59, 689-701.

Casella, Alessandra (1999), "Tradable Deficit Permits. Efficient Implementation of the Stability Pact in the European Union", *Economic Policy*, 29, October, 323-361.

Montgomery, W.D. (1972), "Market Licenses and Efficient Pollution Control Programs", *Journal of Economic Theory*.

Gosseries, Axel (2002), "What's Wrong with Tradable Refugee Quotas?", unpublished paper.

Shiller, Robert J, (1993), *Macro-markets: Creating Institutions for Managing Society's Largest Economic Risks*, Clarendon Lectures in Economics, Oxford University Press: Oxford.

Varian, Hal, (1994), "A Solution to the Problem of Externalities when Agents Are Well-Informed", *American Economic Review*, 84, Dec. 1278-93.

Varian, Hal, (1994), "Sequential Contribution to Public Goods", *Journal of Public Economics*, 53, 165-86.

Admati, Anat and Motty Perry, (1991), "Joint Projects without Commitment", *Review of Economic Studies*, 58, 259-276.

Moulin, Herve, (1984), "The Conditional Auction Mechanism for Sharing a Surplus", *Review of Economic Studies*, 51, 157-170.

Jackson, Matt and Herve Moulin, (1992), "Implementing a Public Project and Distributing Its Cost", *Journal of Economic Theory*, 57, 125-40.

Palfrey, Thomas and Howard Rosenthal, (1984), "Participation and the Provision of Discrete Public Goods: A Strategic Analysis", *Journal of Public Economics*, 24, 171-194.

Bagnoli, Mark and Barton Lipman (1989), "Provision of Public Goods: Fully Implementing the Core through Private Contributions", *Review of Economic Studies*, 56, 583-601.

Alston, Richard and Clifford Nowell, (1996), "Implementing the Voluntary Contribution Game: A Field Experiment", *Journal of Economic Behavior and Organization*, 31, 357-68.

Casella, Alessandra, (2000), "Games for Central Bankers", NBER Working paper 8026, Dec. (published in Charles Wyplosz (ed.), *The Impact of EMU on Europe and the Developing Countries*, Oxford Un. Press, 2001, 111-127).

Falkinger, Josef, Ernst Fehr, Simon Gächter and Rudolf Winter-Ebmer, (2000), "A Simple Mechanism for the Efficient Provision of Public Goods: Experimental Evidence", *American Economic Review*, 90, 247-64.

Jehiel, Philippe and Jacques Thisse, (2005), "How to Win a Decision in a Federation", *Journal of Public Economics*.

b) Voting

Ledyard, John and Thomas Palfrey, (2002), "The Approximation of Efficient Public Good Mechanisms by Simple Voting Schemes", *Journal of Public Economics*, 83, 153-171.

Ledyard, John, (2005), "Voting and Efficiency", mimeo, Caltech.

Casella, A. and A. Gelman, (2005), "A Simple, Robust Procedure to Improve the Efficiency of Referenda", NBER W.P. No. May.

Ledyard, John, (1984), "The Pure Theory of Large Two-Candidate Elections", *Public Choice*, 44, 7-41.

Campbell, Colin (1999), "Large Electorates and Decisive Majorities", *Journal of Political Economy*, 107, 1199-1217.

Casella, Alessandra, (2005), "Storable Votes", *Games and Economic Behavior*.

Casella, Alessandra, Andrew Gelman and Tom Palfrey, (2003) "An Experimental Study of Storable Votes", NBER WP No. 9982 (forthcoming, *Games and Economic Behavior*).

Jackson, Matthew, and Hugo Sonnenschein, 2003, "Linking Decisions", Social Science Working Paper #1159, Caltech, (forthcoming, *Econometrica*)

Guinier, Lani, (1994), *The Tyranny of the Majority*, New York: Free Press.

Gerber, Elizabeth, Morton, Rebecca and Thomas Rietz, (1998), "Minority Representation in Multimember Districts", *American Political Science Review*, 92, 127-144.

Cox, Gary, (1990), "Centripetal and Centrifugal Incentives in Electoral Systems", *American Journal of Political Science*, 34, 903-9335.

Casella, Alessandra, Tom Palfrey and Ray Riezman, (2005), "Minorities and Storable Votes", mimeo, Columbia.

Jackson, Matt, Eddie Dekel and Asher Wolinsky, (2004), "Vote Buying", mimeo, Caltech, October.

Philipson, Tomas and James Snyder, (1996), "Equilibrium and Efficiency in an Organized Vote Market", *Public Choice*, 89, 245-65.

Piketty, Thomas (1994), "Information Aggregation through Voting and Vote-Trading", mimeo, MIT.

Maggi, Giovanni and Massimo Morelli, (2003), "Self-Enforcing Voting in International Organizations", mimeo, Princeton, November.

Mueller, Dennis, (1978), "Voting by Veto", *Journal of Public Economics*, 10, 57-75.

Moulin, Herve' (1982) "Voting with Proportional Veto Power", *Econometrica*, 50, 145-162.

Dekel, Eddie and Michele Piccione, (2000), "Sequential Voting Procedures in Symmetric Binary Elections", *Journal of Political Economy*, 108.

Battaglini, Marco, (2005), Sequential Voting with Small Voting Costs, *Games and Economic Behavior*.

Piketty, Thomas, (1999), "The Information Aggregation Approach to Voting", *European Economic Review*, 43, 791-800.

Austen-Smith, David and Jeffrey Banks, (1996), "Information Aggregation, Rationality and the Condorcet Jury Theorem", *American Political Science Review*, 90, 34-45.

Feddersen, T, and W. Pesendorfer, (1996) "The Swing Voter's Curse", *American Economic Review*, 86, 408-24.

Feddersen, Timothy and Wolfgang Pesendorfer, (1998), "Convicting the Innocent: The Inferiority of Unanimous Jury Verdicts under Strategic Voting", *American Political Science Review*, Vol. 92, No. 1, pp. 23-35.

Coughlan, Peter J., 2000, "In Defense of Unanimous Jury Verdicts: Mistrials, Communication, and Strategic Voting", *American Political Science Review*, Vol. 94, No. 2., June, pp. 375-393.

Piketty, Thomas (2000), "Voting as Communication", *Review of Economic Studies*, 67, 169-91.

Austen-Smith, David and Timothy Feddersen, "Deliberation, Unanimity, and Majority Rule", mimeo, Northwestern, 2004.

Baron, David and John Ferejohn, (1989), "Bargaining in Legislatures", *American Political Science Review*.

Baron, David, (1996), "A Dynamic Theory of Collective Goods Programs", *American Political Science Review*.

Banks and Duggan, 2000, "A Bargaining Model of Collective Choice", *American Political Science Review*.

Jackson, Matt and Salvador Barbera, (2004), "On the Weights of Nations: Assigning Voting Power to Heterogeneous Voters", mimeo, Caltech..

c) Networks.

Arthur, Brian, (1989), "Competing Technologies, Increasing Returns, and Lock-in by Historical Events, *Economic Journal*, March, 116-31.

Arthur, Brian, (1988), "Self-Reinforcing Mechanisms in Economics", in Anderson, Arrow and

Pines (eds.), *The Economy as an Evolving Complex System*, Redwood City, Ca: Addison-Wesley, 9-32.

Kirman, Alan, (1993), "Ants, Rationality and Recruitment", *Quarterly Journal of Economics*, Feb., 137-156.

Gode, Dhananjay and Shyam Sunder, (1993), "Allocative Efficiency of Markets with Zero-Intelligence Traders: Market as Partial Substitute for Individual Rationality", *Journal of Political Economy*, 101, 119-137.

Härdle, W. and A. Kirman, 1995, "Non-classical Demand: A Model-Free Examination of Price Quantity Relations in the Marseilles Fish Market", *Journal of Econometrics*, 67.

Bikhchandani S., Hirschleifer D. and I. Welch, (1992), "A Theory of Fads, Fashion, Custom and Cultural Change as Informational Cascades", *Journal of Political Economy*, 100, 992-1026.

Banerjee, Abhijit, (1992), "A Simple Model of Herd Behavior", *Quarterly Journal of Economics*, 108, 797-817.

Chamley, Christophe, (2004), *Rational Herds: Economic Models of Social Learning*. Cambridge University Press: Cambridge, U.K.

Anderson, Lisa and Charles Holt, (1997), "Informational Cascades in the Laboratory", *American Economic Review*, 87, 847-862.

Celen, Bogachan and Shachar Kariv, (2004), "Distinguishing Informational Cascades from Herd Behavior in the Laboratory", *American Economic Review*, 94, 484-497.

Palfrey, Thomas, J. Goeree, B. Rogers and R. McKelvey, (2004), Self-Correcting Information Cascades, Caltech SSWP #1197.

Montgomery, James. (1991), "Social Networks and Labor Market Outcomes: Toward an Economic Analysis", *American Economic Review*, Dec.

Casella, A. and Nobu Hanaki, (2005), "Information Transmission in Labor Markets. On the Resilience of Personal Referrals", CEPR D.P. No. , April 2005.

Saint Paul, Gilles, (2005), "Social Networks as Substitutes for Markets", mimeo, Toulouse.

Rauch, Jim and Alessandra Casella (eds.), (2001) *Networks and Markets*, Russell Sage Foundation: New York

Casella, A. and J. Rauch, (2002), "Anonymous Market and Group Ties in International trade", *Journal of International Economics*.

Kranton, Rachel, (1996), "Reciprocal Exchange: A Self-Sustaining System", *American*

Economic Review, Sept. 830-851.

Kranton, Rachel and Deborah Minehart, (2001), "A Theory of Buyer-Seller Networks", *American Economic Review*, 91, 485-508.

Bramoulle' Yan and Rachel Kranton, (2003), "A Network Model of Public Goods: Experimentation and Social Learning", mimeo, Un of Maryland, April.

Bloch, Francis, Garrance Genicot and Debraj Ray, (2005), "Informal Insurance in Social Networks", mimeo, Greqam.

Bisin, Alberto, (2005), "On the Dynamics of Social Interactions", mimeo, NYU.

Benabou, Roland, (1993), "Workings of a City: Location, Education and Production", *Quarterly Journal of Economics*, 108, 619-652.

Calvo, Antoni and Matt Jackson, (2005), "Social Networks in Determining Employment And Wages: Patterns, Dynamics and Inequality", AER.

Calvo, Antoni and Matt Jackson, (2005), "Like Father, Like Son: Labor Market Networks and Social Mobility," mimeo, Caltech, January.

Jackson, Matt and Allison Watts, (2005), "Social Games", mimeo, Caltech.

Dutta, Bhaskar and Matt Jackson, (2001), "On the Formation of Networks and Groups", forthcoming in Dutta and Jackson, eds., *Models of Strategic Formation of Networks and Groups*, Springer-Verlag

Greif, Avner, (1993), "Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition", *American Economic Review*, June, 525-548.

Greif, Avner, (1994), "Cultural Beliefs and the organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies", *Journal of Political Economy*, 102, 912-950.

Dixit, Avinash, (2004), *Lawlessness and Economics*, Princeton University Press: Princeton.

Dixit, Avinash, (2003) "On Modes of Economic Governance", *Econometrica*.

Casella, Alessandra, (1996), "On Market Integration and the Development of Institutions: The Case of International Commercial Arbitration", *European Economic Review*, 40, 155-186.

c) *Auctions and Tournaments.*

Frank, R. and P. Cook, (1995), *The Winner-Take All Society*, New York: The Free Press.

Klemperer, Paul, (2000), *Why Every Economist Should Learn Some Auction Theory*, invited paper at the World Congress of the Econometric Society .

Moldovanu, Benny and Philippe Jehiel, (2003), "An Economic Perspective on Auctions", *Economic Policy*, Vol. 36, April, pp. 271-308.

Levin, Jonathan and Barry Nalebuff, (1995), "An Introduction to Vote-Counting Schemes", *Journal of Economic Perspectives*, 9, 3-26.

Persico, Nicola, (2002), "Games of Redistributive Politics are Equivalent to All-Pay Auctions with Consolation Prizes", (on Persico's web page).

Snyder, James, (1989), "Election Goals and the Allocation of Campaign Resources", *Econometrica*, May, 637-660.

Lazear, Edward and Sherwin Rosen, (1981), "Rank-Order Tournaments as Optimum Labor Contracts", *Journal of Political Economy*, Oct. 841-864.

Green, Jerry and Nancy Stokey, (1983), "A Comparison of Tournaments and Contracts", *Journal of Political Economy*, 91, 349-64.

Nalebuff, Barry and Joseph Stiglitz, (1983), "Prizes and Incentives: Towards a General Theory of Compensation and Competition", *Bell Journal of Economics*, 14, 21-43.

Rosen, Sherwin, (1986), "Prizes and Incentives in Elimination Tournaments", *American Economic Review*, Sept. 701-715.

Dixit, Avinash, (1987), "Strategic Behavior in Contests", *American Economic Review*, 77, 891-898.

Ehrenberg, R. and M. Bognanno, (1990), "Do Tournaments Have Incentive Effects?", *Journal of Political Economy*, 98, 1307-1324.

Moldovanu, B. and A. Sela, (2001), "The Optimal Allocation of Prizes to Contests", *American Economic Review*, June.

Fernandez, Raquel and Jordi Gali, (1999), "To Each According to...? Markets, Tournaments and the Matching Problem with Borrowing Constraints", *Review of Economic Studies*, Oct. 799-824.

d) Clubs and jurisdictions.

Gabrielle Demange and Myrna Wooders (eds.), (2005), *Group Formation in Economics; Networks, Clubs and Coalitions*, Cambridge University Press: Cambridge.

Alesina, Alberto and Enrico Spolaore, (1997), "On the Size and Number of Countries", *Quarterly Journal of Economics*, November.

Alesina, Alberto, Ignazio Angeloni and Federico Etro (2001), "Institutional Rules for Federations", mimeo, Harvard University.

Bolton, Patrick and Gérard Roland, (1997), "The Break-Up of Nations: A Political Economy Analysis", *Quarterly Journal of Economics*, November.

Casella, Alessandra, (2001), "The Role of Market Size in the Formation of Jurisdictions", *Review of Economic Studies*, 68, 83-108.

Casella, Alessandra and Jonathan Feinstein, (2002), "Public Goods in Trade. On the Formation of markets and Political Jurisdictions", *International Economic Review*, May.

Perroni, Carlo and Kimberley A. Scharf, (2001), "Tiebout with Politics. Capital Tax Competition and Constitutional Choices", *Review of Economic Studies*, 68.

Jéhiel, Philippe and Suzanne Scotchmer, (2001), "Constitutional Rules of Exclusion in Jurisdiction Formation", *Review of Economic Studies*, 68.

Haimanko, Ori, Michel Le Breton, and Shlomo Weber, (2001), "Transfers in a Polarized Country: Bridging the Gap Between Efficiency and Stability", unpublished paper, Southern Methodist University.

Burbidge, John, James DePater, Gordon Myers and Abhijit Sengupta, (1997), "A Coalition-Formation Approach to Equilibrium Federation and Trading Blocs", *American Economic Review*, December.

Ray, Debraj and R. Vohra, (2001), "Coalitional Power and Public Goods", *Journal of Political Economy*, 109, 1355-84.

Farrell, Joseph and Suzanne Scotchmer, (1988), "Partnerships", *Quarterly Journal of Economics*, 103, 279-298.

Tamura, Robert, (1996), "Regional Economies and Market Integration", *Journal of Economic Dynamics and Control*, 20, 825-845.

Wilson, John Douglas, (1987a), "Trade in a Tiebout Economy", *American Economic Review*, 77, June, 431-441.

Wilson, John Douglas, (1987b), "Trade, Capital Mobility and Tax Competition", *Journal of Political Economy*, 95.

Pauly, Mark, (1970), "Cores and Clubs", *Public Choice*, IX, Fall, 53-65.

Scotchmer, Suzanne and Myrna Wooders, (1987), "Competitive Equilibrium and the Core in Club Economies with Anonymous Crowding", *Journal of Public Economics*, 34, 159-74.

Wooders, Myrna H., (1978), "Equilibria, the Core, and Jurisdiction Structures in Economies with a Local Public Good", *Journal of Economic Theory*, 328-348.