

## **New Political Economy**

Length of Classes: 2 hours

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Office Hours:

### **Course Design and Objectives**

This course is designed to survey and critically discuss *New Political Economy*, that is, the set of existing theories that model the impact of political conflict and political institutions on economic performance. The course is structured around three main issues: the impact of elections, parties and domestic institutions on business cycles and macroeconomic policy; the causes and consequences of politically enforced redistribution; and the causes of growth. The scope of the course is analytical in its theoretical perspective and comparative from a methodological point of view. We will also discuss the implication of current theories on China's economic reform, and how to analyze China's economy and policy from a political economy's perspective.

### **Course Procedures and Evaluation**

Each student is expected to read (before class) the items listed as 'required readings' for each session. In some sessions 'background' reading, which is optional, is intended to provide introductions to the week's main readings.

Discussions questions are listed on the syllabus. Sign-up lists will be distributed the week before each class. Each student will be asked to prepare to speak briefly on one of the questions but students should not confine their reading and preparation to that question alone.

In addition, students are expected to complete:

- (1) One short paper (around 3 pages) analyzing one economic phenomena or specific policymaking in China process by using the theories covered in this course.
- (2) A final exam to be set by the instructor.

Participation in class will count for 20 per cent of the grade. The other assignment (short paper, exam) will count for the other 80 per cent of the course grade.

## **Textbook**

The text for the course is Political Economics: Explaining Economic Policy (Zeuthen Lectures) by Tostern Persson and Guido Tabellini.

## **Course Outline and Reading Assignments**

The chapters listed are from Political Economics: Explaining Economic Policy. The entire chapter is assigned unless specific pages are given. Appendixes to chapters are not assigned unless noted. The articles listed can be found on the course website.

### **Lecture 1. From Social Choice to Political Economics.**

Persson-Tabellini (2000): Introduction.

Arrow, K. (1951) *Social Choice and Individual Values*, New York, John Wiley and Sons.

Gibbard, A. (1973). Manipulation of Voting Schemes., *Econometrica* 41: 587-601.  
Satterthwaite, M.A. (1975). Strategy-proofness and Arrow's Conditions: Existence and Correspondence Theorems for Voting Procedures and Social Welfare Functions., *Journal of Economic Theory* 10: 187-217.

North, Douglass and Barry Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *Journal of Economic History*, December, 1989.

Weingast, Barry, "Political Foundations of Democracy and the Rule of Law," *American Political Science Review*, 91:245-63, 1997.

### **Lectures 2. Preferences and Institutions.**

Persson-Tabellini (2000): Chapter 2.

Roemer, J. (1999). The Democratic Political Economy of progressive Income Taxation. *Econometrica* 67: 1-20.

### **Lecture 3. Electoral Competition**

Persson-Tabellini (2000): Chapter 3.

#### **Lecture 4. Agency and Corruption**

Persson-Tabellini (2000): chapter 4.

Bardhan, Pranab. "Corruption and Development: A Review of Issues." *Journal of Economic Literature*, September 1997, XXXV, pp. 1320-46.

Shleifer, Andrei, and Robert Vishny, "Corruption," *Quarterly Journal of Economics*, August, 1993.

Shleifer, Andrei and Robert Vishny, "Pervasive Shortages under Socialism," *RAND Journal of Economics*, 1992.

#### **Lecture 5. Partisan Politicians.**

Persson-Tabellini (2000): chapter 5.

#### **Lecture 6. Models of redistributive politics.**

Persson-Tabellini (2000): chapter 6.

#### **Lecture 7. Special Interest Politics.**

Persson-Tabellini (2000): chapter 7

Grossman and Helpman (2001) *Special Interest Politics*. Chapters 4 and 5.

#### **Lecture 8. Politics, Inequality and Growth.**

Persson-Tabellini (2000): chapter 14.

Aghion, Philippe, Caroli, Eve and Garcia-Penalosa, Cecilia (1999). Inequality and economic growth: the perspective of the new growth theories. *Journal of Economic Literature*, 37(4), December, 1615-1660.

Persson T. and G. Tabellini (1994). Is inequality harmful for growth? *American Economic Review*, 84, 600-621.

Perotti, R. (1996). Democracy, income distribution and growth: What the data say, *Journal of Economic Growth*, 1, June, 149-187.

#### **Lecture 9. Political Economy in China I: Dual-Track and Price Reform**

Qian, Yingyi (2000) "The Process of China's Market Transition (1978-1998): The Evolutionary, Historical, and Comparative Perspectives." *Journal of Institutional and Theoretical Economics*, March 2000, 156(1), pp. 151-171.

### **Lecture 10. Political Economy in China II: Federalism and Public Finance**

Weingast, Barry R., "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Growth," *Journal of Law, Economics, and Organization*, 11:1-31, 1995.

Cao, Weingast and Qian (1999). "From Federalism, Chinese Style, to Privatization, Chinese Style". *Economics of Transition*, March 1999, 7(1), pp. 103-131.

Qian, Yingyi and Gerard Roland (1998). "Federalism and the Soft Budget Constraint". *American Economic Review*, December 1998, 88(5), pp. 1143-1162.

Qian, Yingyi and Barry Weingast (1996). "China's Transition to Markets: Market-Preserving Federalism, Chinese Style". *Journal of Policy Reform*, 1996, 1, pp. 149-185.