

GU4370
POLITICAL ECONOMY
MW 10.10-11.25

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Office hours: W 4-6 by zoom, or in person by appointment.

Prerequisites: Calculus III, ECON W3211, W3213; STAT W1201.

Requirements: There will be a midterm and a final, both as take-home exams. The midterm will count for 1/3 of the final grade; the final for 1/2. In addition, there will be eight problem sets. The problem sets, graded as check, check plus, check minus, are required and will count for 1/6 of the grade. *All exams and problem sets will be based on the lectures.* **Class attendance is required.**

This year, given the remote format, we will experiment with a new feature. For each class, *ten students will be assigned the role of panelists*: panelists have to ask at least one question during the class, and more broadly are in charge of creating a more interactive environment. Effective panelists will earn bonus points up to an extra 1/6 of the pre-bonus total grade.

Textbook: There is no textbook, but the following books will be useful and are on reserve in the Business Library:

Gruber, J., 2007, *Public Finance and Public Policy*, Worth Publishers

Hindriks, J. and G. Myles, 2006, *Intermediate Public Economics*, MIT Press: Cambridge.

Mueller, D.C., 2003, *Public Choice III*, Cambridge University Press: Cambridge, UK.

Shepsle, K.A. and M. S. Bonchek, 1997, *Analyzing Politics*, Norton: New York.

Introduction

Approach:

* Sonnenschein, Hugo, 1983, *The Economics of Incentives: An Introductory Account*, Nancy Schwartz Memorial Lecture, J. L. Kellogg School of Management, Northwestern University, 1983 (available at: <https://courses.cit.cornell.edu/econ335/hugo.pdf>)

Content. Three examples:

Kremer, M., 1998. "Patent Buyouts: A Mechanism for Encouraging Innovation", *Quarterly Journal of Economics*, 113: 1137-1167.
<http://nrs.harvard.edu/urn-3:HUL.InstRepos:3693705>

Casella, A and A. Cox, 2018, "A Property Rights Approach to Temporary Work Visas", *Journal of Legal Studies*, 47, S1, S195-S227.
<https://econ.columbia.edu/wp-content/uploads/sites/41/2017/10/694166.pdf>

Shachar, Ayelet, 2009, *The Birthright Lottery: Citizenship and Global Inequality*, Cambridge, Mass.: Harvard University Press.

See the review at:

http://www.carnegiecouncil.org/publications/journal/24_4/reviews/001.html)

1. Limits and potential of markets.

- Externalities and public goods.
- The Coase theorem.
- Markets for pollution permits.

*Coase, R., 1960, "The Problem of Social Cost", *The Journal of Law and Economics*, 3, 1-44.

*Farrell, J., 1987, "Information and the Coase Theorem", *Journal of Economic Perspectives*, 2, 113-129.

Dales, J., 1968, *Pollution, Property and Prices*, Toronto University Press: Toronto.

EPA:

<https://www.epa.gov/airmarkets/acid-rain-program>

<https://www.epa.gov/airmarkets/so2-allowance-auctions>

Center for Climate and Energy Solutions (C2ES):

<http://www.c2es.org/federal/executive/epa/q-a-regulation-greenhouse-gases-existing-power>

Tietenberg, T., 2006, *Emissions Trading*, Resources for the Future: Washington, DC (2nd edition).

*Schmalensee, R. and R. Stavins, 2013, “The SO₂ Allowance Trading System: The Ironic History of a Grand Policy Experiment”, *The Journal of Economic Perspectives*, 27, 103-122.

Joskow, P.L., R. Schmalensee and E. M. Bailey, 1998, “The Market for SO₂ Emissions”, *American Economic Review*, 88, 669-685.

Casella, A. 1999, “Tradable Deficit Permits”, *Economic Policy*, 29, October.

Fisher, Frank and Annette Huber-Lee, 2005, *Liquid Assets. An Economic Approach for Water Management and Conflict Resolution in the Middle East and Beyond*, Washington, DC: Resources for the Future.

Schuck, P., 1997, “Refugee Burden-Sharing. A Modest Proposal”, *Yale Journal of International Law*, 22.

Schuck, P., 1999, “A Response to the Critics”, *Harvard Human Rights Journal*, 12.

Posner E. and G. Weyl, 2018, *Radical Markets*, Princeton, NJ: Princeton Un. Press.
<https://www-jstor-org.ezproxy.cul.columbia.edu/stable/j.ctvdf0kwwg> (CHECK)

Acemoglu, D., 2003, “Why not a Political Coase Theorem? Social Conflict, Commitment, and Politics”, *Journal of Comparative Economics*, 31(4).

2. Public goods provision.

- Optimal provision (the Samuelson - Lindhal condition).
- Decentralized provision of public goods and free-riding.
- The Vickrey-Clarke-Groves mechanism.
- Experimental results.

Hindriks, J. and G. Myles, Ch. 5.

Gruber, J., Ch. 7.

Andreoni, J., 1988, “Why Free Ride? Strategies and Learning in Public Goods Experiments”, *Journal of Public Economics*, 37, 291-304.

*Isaac, R.M., K.F. McCue and C.R. Plott, 1985, “Public Goods in an Experimental Environment”, *Journal of Public Economics*, 26, 51-74.

Andreoni, J., 1995, “Cooperation in Public Goods Experiments: Kindness or Confusion?”, *American Economic Review*, 85, 891-904.

*Rand, D., J. Greene and M. Nowak, 2012, “Spontaneous Giving and Calculated Greed”, *Nature*, 489, 427-430.

*Recalde, M, A. Reidl and L. Vesterlund, “Error Prone Inference from Response Time: The Case of Intuitive Generosity,” *Journal of Public Economics*, 160, 2018, pp. 132-147.

Varian, H., *Intermediate Microeconomics: A Modern Approach*, Ch.36.

Clarke, E.H., 1971, “Multipart Pricing of Public Goods”, *Public Choice*, 17-33.

Groves, T., 1973, “Incentives in Teams”, *Econometrica*, 41, 617-631.

Krishna, V. 2002. *Auction Theory*. San Diego, CA: Academic Press.

3. COVID 19

- Testing.
- Vaccine Development.

Gollier, C., 2020, “Optimal Group Testing to Exit the Covid Confinement” (in Courseworks)

Gossner, O., 2020, “Group Testing against COVID-19” (in Courseworks)

Romer, P. 2020, “Roadmap to Responsibly Reopen America”

Kremer M. and R. Glennerster, 2004, *Strong Medicine: Creating Incentives for Pharmaceutical Research on Neglected Diseases* PUP: Princeton, NJ.

Kremer M., J. Levin, and C. Snyder, 2020, “Advance Market Commitments: Insights from Theory and Experience”, NBER W.P. No. 26775 (in Courseworks).

Kremer M., J. Levin, and C. Snyder, 2019, “Designing Advance Market Commitments for New Vaccines” (in Courseworks).

4. Voting:

- Majority rule and the Condorcet paradox.
- Arrow's Impossibility theorem.
- Majority rule and single-peaked preferences.
- Party competition in elections.
- Alternatives to majority rule.
- Majority rule and common values: the Condorcet Jury Theorem.

*Shepsle and Bonchek, Chs 4-8.

*Mueller, Chs 4-8.

Arrow, K., 1951, *Social Choice and Individual Values*, Wiley (Yale University Press, 1990).

Gibbard, Allan F., 1973, "Manipulation of Voting Schemes: A General Result" *Econometrica* 41: 587-601;

Satterthwaite, Mark 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;

Brandt, F., V. Conitzer and U. Endriss, 2012, Computational Social Choice, in G. Weiss (ed.), *Multiagent Systems*, MIT Press, ch. 6.

Black, D. 1958, *The Theory of Committees and Elections*, Cambridge University Press.

*Dasgupta P. and E. Maskin, 2004, "The Fairest Vote of All", *Scientific American*, March, 92-97.

Jean-François Laslier and Karine Straeten, 2008, "A live experiment on approval voting," *Experimental Economics*, 11, 97-105.

Casella, A., 2012, *Storable Votes: Protecting the Minority Voice*, Oxford Un. Press: Oxford UK and New York, NY.

Casella, A. and L. Sanchez, forthcoming, "Democracy and Intensity of Preferences. A Test of Storable Votes and Quadratic Voting on Four California Propositions", *Journal of Politics*. (In Courseworks).

Casella, A. and A. Macé, 2020, "Does Vote Trading Improve Welfare?" (in Courseworks).

Posner, E. and G. Weyl, 2018, "Quadratic Voting. How Mechanism Design Can Radicalize Democracy", *American Economic Review, Papers and Proceedings*, May.

Cox, Gary, 1994, "Strategic Voting Equilibria under the Single- Nontransferable Vote", *American Political Science Review*, 88, 608-621.

Palfrey, T., 1989, "A Mathematical Proof of Duverger's Law" in Ordeshook, ed. *Models of Strategic Choice in Politics*, University of Michigan Press.

*Piketty, T., 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.

5. Redistribution.

- Rent-seeking and lobbying
- The political economy of redistribution
- Income and wealth distribution: dynamic trends

Mueller, Ch. 3; Ch. 20.

Hillman, A. and D. Samet, 1987, Dissipation of Contestable Rents by a Small Number of Contenders, *Public Choice*, 54, 63-82.

Myerson, R., 1993, "Incentives to Cultivate Favorite Minorities under Alternative Voting Systems", *American Political Science Review*, 87, 856-869.

*Meltzer and Richards, 1981, "A Rational Theory of the Size of Government", *Journal of Political Economy*, 914-27.

Agranov, Marina and Thomas R. Palfrey. 2015. "Equilibrium Tax Rates and Income Redistribution: A Laboratory Study", *Journal of Public Economics*, 130, 45-58.

Gruber, J., Ch.17.

Piketty, Thomas, 1995, "Social Mobility and Redistributive Politics", *Quarterly Journal of Economics*, 110, 551-584.

Alesina, A., E. Glaeser and B. Sacerdote, 2001, "Why Doesn't the US Have a European-Style Welfare State?", *Brookings Papers on Economic Activity*, and Harvard Institute of Economic Research, D.P. No. 1933. (In Courseworks)

*Alesina, A., A. Miano, and S. Stantcheva, 2018, "Immigration and Redistribution" NBER W.P. 24733, June. (In Courseworks).

*Piketty, T., 2018, “Brahmin Left vs Merchant Right: Rising Inequality & the Changing Structure of Political Conflict (Evidence from France, Britain and the US, 1948-2017)”, unpublished, PSE. ENS, Paris

<http://piketty.pse.ens.fr/files/Piketty2018.pdf>

*Piketty, T. and E. Saez, “Inequality in the Long-Run”, 2014, *Science*, 344, 838-843.

Alvaredo, F., A. B. Atkinson, T. Piketty and E. Saez, 2013. “The Top 1 Percent in International and Historical Perspective”, *The Journal of Economic Perspectives*, 27, 3-20.

Atkinson, A.B., T. Piketty and E. Saez, 2011. “Top Incomes in the Long Run of History”, *Journal of Economic Literature*, 49, 3-71.

*Chetty, R., D. Grusky, M. Hell, N. Hendren, R. Manduca, and J. Narang, 2017, “The Fading American Dream: Trends in Absolute Income Mobility since 1940”, *Science* 356 (6336): 398-406.