

POLITICAL ECONOMY II.
(4 credits)

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Office hours: Tuesday 10.40 – 12.00, Thursday 10.40 – 13.00

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Office hours:

Lectures and seminars: Tuesday and Thursday 9.00 – 10.40

Course description and objective:

The course is an introduction to contemporary political economy, both as an application of economic paradigms for explaining political phenomena and as a discipline focusing on the links between politics and economics. To put it differently, in one way or another the entire course will concentrate on two fundamental questions from various aspects:

- How and to what extent do societal agents act rationally, and what are the societal consequences of such behaviour?
- How and to what extent do (political) institutions affect behaviour and thus economic performance?

During the course students will acquaint with different alternative theories, concepts, and methodological approaches concentrating on these questions.

Learning outcomes:

Students will be acquainted with the basic concepts and paradigms of contemporary political economy. The acquired knowledge will enable them to pursue individual research on various topics of political economic nature and choose the appropriate ones among various alternative analytical approaches.

Teaching format:

The course consists of 24 (2 per week) classes. Every week the first class is an interactive lecture while the second one is a seminar that requires active students' participation.

Requirements

- Students are required to attend classes regularly and to participate actively in course discussions.
- Students are expected to formulate written comments and questions about the literature. These short comments and questions will serve as basis for seminar discussions, and are to be submitted via e-mail by 8 pm preceding the day of the seminar.
- Students will write brief written tests after the 4th and the 8th topic covering the previous 4 topics
- Students will write an in-class closed-book final exam during the last class.
- (Although it is not a requirement, interested students will be given the possibility to make in-class presentations of some literature not included in the core readings.)

Assessment:

2 short tests:	2 x 15 %
Written questions and comments:	15 %
Final exam:	40 %
In-class participation	15 %

1. Economy, politics, old and new political economy

Caporaso, J.A. and Levine, D.P. (1992): Chapter 1-2 in *Theories of Political Economy*, Cambridge: Cambridge U Press ch.1-2

Drazen, Allan (2004): What is political economy? Chapter one in " *Political economy in macroeconomics*", Princeton UP

Besley, Timothy (2007): The New Political Economy. *The Economic Journal* 117 November

Suggested:

Levi, M (2000): 'The Economic Turn in Comparative Politics', *Comparative Political Studies* vol.33, No.6/7, pp.822-844.

Locke, J. (1689): *Second Treatise on Government*, Prometheus Books: Buffalo NY, ch. IX, par.123- 131

Smith, A. (1776): *An Inquiry into the Nature and Causes of the Wealth of Nations*, Everyman's Library: London (1991), First Book: chs. 1-3,

Polanyi, K. (1944), *The Great Transformation*, Boston: Beacon Press, ch.10

2 The 3 (+2) I's in social science

Hall, P(1997) The Role of Interests, Institutions and Ideas in the Comparative Political Economy of the Industrialized Nations in Lichbach – Zuckermnan (eds): *Comparative Politics: Rationality, Culture and Structure*. Cambridge University Press 1997

Hall, P. and Taylor, R. (1996). 'Political Science and the Three New Institutionalisms', *Political Studies* vol.44: 936-57 .

Suggested

Blyth, M. (1997). '[Review Essay] Any More Bright Ideas? The Ideational Turn of Comparative Political Economy', *Comparative Politics* vol.29, No.2, pp.229-250.

Hall, P. A. (ed.) (1993): 'Conclusion', in: *The Political Power of Economic Ideas: Keynesianism Across Nations*, Princeton: Princeton University Press, pp.361-391.

Schelling, T.C. (1978): *Micromotives and macrobehavior*, New York and London: WW.Norton, ch.1

Goldstein, J. and Keohane, R. (eds.) (1993): *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change*, Ithaca: Cornell University Press, ch.1 by the editors and ch.7 by Garrett and Weingast on the single market

Furubotn, E.G. and Richter, R. (2000), *Institutions and Economic Theory; The Contribution of the New Institutional Economics*, The University of Michigan Press

Buchanan, J.M. & Tullock, G. (1952): *The Calculus of Consent*, Ann Arbor: University of Michigan Press, chs. 3, 18

Pontusson, J., From Comparative Public Policy to Political Economy: Putting Political Institutions in Their Place and Taking Interests Seriously, *Comparative Political Studies*, 28, 1 (Spring 1995), 117-147)

3 The meaning of rationality and the theory of rational choice

Hindmoor. Andrew (2006): Chapter 8 and 9 in "Rational Choice", Palgrave MacMillan

Suggested:

Buchanan, J.M. & Tullock, G. (1952): *The Calculus of Consent*, Ann Arbor: University of Michigan Press

Green, Steven L (2002):Rational Choice Theory: An Overview.. Mimeo, Baylor University

http://business.baylor.edu/steve_green/green1.doc

Kassim, H. and Menon, A. (2005): 'The principal-agent approach and the study of the European Union: promise unfulfilled?' in: E.Jones, and A.Verdun (eds): *The Political Economy of European Integration*, Oxon and New York: Routledge, ch.3.

Scharpf, F.W. (1997), *Games real actors play : actor-centered institutionalism in policy research*, Boulder, CO: Westview Press, ch.6

Tsebelis, G. (1990), *Nested games: rational choice in comparative politics*, Berkeley, CA: University of California Press, chs.1

Schelling, Thomas C. (1960), *The Strategy of Conflict*, Harvard University Press, Cambridge, 1960. In paperback: Oxford University Press, New York, 1963. Harvard University Press paperback, 1980.

4. The limits of rationality and rational choice

Ahn, T.K - Ostrom , E (2002): *Social Capital and the Second-Generation Theories of Collective Action: An analytical approach to the forms of social capital..* paper prepared for the 2002 Annual Meeting of the American Political Science Association

Sen, A.K. (1977): 'Rational Fools: A Critique of Behavioral Foundations of Economic Theory', *Philosophy and Public Affairs* 6 (3): 317-344

Suggested:

Sen, Amartya(1995):Rationality and Social Choice. American Economic Review. Vol 85 No.1 , March 1995

Piore, M. J. (1995): *Beyond Individualism*. Cambridge MA: Harvard University Press, chs. 1, 2

5. Market and the state; private vs. public goods and redistribution

Barr, N (2003) *The Economics of the Welfare State*, 4th ed., Oxford: OUP, ch.4.

Hahn, F.H. (1984), "Reflections on the Invisible Hand", in: *Equilibrium and Macroeconomics*, Blackwell: Oxford, pp. 111-133

Suggested:

Begg - Dornbusch - Fisher (2000) Introduction to welfare economics. Ch 15 in *Economics* McGraw-Hill, London

Akerloff, G, (1970). "The market for lemons", *Quarterly Journal of Economics* Vol 84, No 3 pp 488-500

Hall & Soskice, "An introduction to Varieties of Capitalism" (in) Hall & Soskice (ed.), *Varieties of Capitalism*, Oxford UP 2001

Strange, S. (1993): *States and Markets*, 2nd ed., New York: Basil Blackwell, ch.2

6 Collective action and agency capture

Olson, M. (1982): *The Rise and Decline of Nations*, New Haven and London: Yale University Press, chs. 2, 3 [

Lohmann, S. (2003): 'Representative Government and Special Interest Politics (We Have Met the Enemy and He Is Us)', *Journal of Theoretical Politics* vol.15: 299-319.

Suggested:

Hirschman, A.O. (1992): 'Exit and Voice: an expanding sphere of influence', in: idem, *Rival views of market society and other recent essays*, Cambridge, MA: Harvard University Press, ch.4

Gellner, E. (1994). *Conditions of Liberty. Civil Society and its Rivals*. London: Hamish Hamilton, Introduction.
Sabatier, P.A. (1992): 'Interest Group Membership and Organization: Multiple Theories' in: Petracca, M.P. (Ed.) : *The Politics of Interests: Interest Groups Transformed*, Boulder, CO. Westview, ch.5

7. Legitimacy and accountability

Majone, G. (1997), 'The Regulatory State and its Legitimacy Problems', *West European Politics* vol.22, No.1, pp.1-24

McNamara, K.R. (2002): 'Rational Fictions? Central Bank Independence and the Social Logic of Delegation', *West European Politics* 25(1), pp.47-76.

Majone, G. (2001): 'Two Logics of Delegation. Agency and Fiduciary Relationships in EU Governance', *European Union Politics* vol.2, No.1, pp.103-122.

Suggested:

Downs, A. (1957): *An Economic Theory of Democracy*, New York: Harper and Row, chs.1, 2, 3

March, J.G. and Olsen, J.P. (1989), *Rediscovering Institutions. The Organizational Basis of Politics*, New York: Free Press, ch.7

Buiter, Willem H. (2006), "'How Robust is the New Conventional Wisdom in Monetary Policy? The surprising fragility of the theoretical foundations of inflation targeting and central bank independence" , mimeo, European Institute, London School of Economics and Political Science, June 2006.

<http://www.nber.org/~wbuiter/konstanz.pdf> .

8. Credibility, commitment and conditionality

Giavazzi, G., and Pagano, M. (1988): 'The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility', *European Economic Review*, vol. 32, pp.1055-1082.

Lohmann, S. (2003) 'Why Do Institutions Matter? An Audience-cost Theory of Institutional Commitment', *Governance* vol.16, No.1, pp.95-110.

Rodrik, D. and Zeckhauser, R. (1988): 'The Dilemma of Government Responsiveness', *Journal of Policy Analysis and Management* vol.7, No.4, pp.601-620.

Suggested

Cukierman, A. (1992): *Central Bank Strategy, Credibility, and Independence: Theory and Evidence*, Cambridge, MA & London: MIT Press, ch.2 [

Blinder, Alan S. (1999), *Central Banking in Theory and Practice*, Cambridge, MA: MIT Press.

McCallum, B. T. (1995), "Two fallacies concerning central bank independence", *American Economic Review*, Papers and Proceedings, vol. 85 (May), pp. 207-211.)

9. Political competition and economic policy-making

Drazen, Alan (2000) The political business after 25 years. NBER macroeconomics annual,
Price, Simon (1997) Political business cycles and macroeconomic credibility: A survey .
Public Choice Vol 92 No.3,4

Suggested

Nordhaus, WD (1989) Alternative approaches to the political business cycle - *Brookings Papers on Economic Activity*

10. Constructivism and political economy

Watson, Matthew, Ph.D. (2001) International capital mobility in an era of globalisation: adding a political dimension to the 'Feldstein–Horioka Puzzle'. *Politics (Oxford)*, Vol.21 (No.2). pp. 81-92.

Fligstein, Neil and Ioana Mara-Drita (1996) 'How to Make a Market: Reflections on the Attempt to Create a Single Market in the European Union', *The American Journal of Sociology*, 102(1): 1-33.

Abdelal, Rawi (2009) 'Constructivism as an Approach to International Political Economy', In: Blyth, Mark (ed.) *Routledge Handbook of International Political Economy*, Routledge, 62-76.

Suggested

Polanyi, K. (1944), *The Great Transformation*, Boston: Beacon Press, chs. 11-13

Checkel, J.T. (1999): 'Social construction and integration', *Journal of European Public Policy* vol.6, No.4, pp. 545-560.

Berger, P.L. and Luckmann, T. (1966): *The Social Construction of Reality: A Treatise in the Sociology of Knowledge*, London: Penguin Books, chs. 2.1 and 2.2

11: Fiscal federalism and decentralization

Oates, Wallace. 1999. "An Essay on Fiscal Federalism," *Journal of Economic Literature*. Vol. 37 (3). p 1120-49

Giampaolo Garzarelli, 2005. "Old and New Theories of Fiscal Federalism, Organizational Design Problems, and Tiebout," *Public Economics* 0509009, EconWPA

Suggested

Oates, Wallace: *Toward A Second-Generation Theory of Fiscal Federalism*. *International Tax and Public Finance*, 12, 349–373, 2005

Rodden, Jonathan (2003) "Reviving Leviathan: Fiscal Federalism and the Growth of Government. *International Organization*. Vop1 57. No 4, November 2003

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

12 Summary :Descriptive and normative political economy and the role of institutions