

## Discipline Specific Elective 13 (DSE-13): Modern Political Economy

Semester	Course title & Code	Credits	Duration (per week)			Eligibility Criteria	Prerequisite
			Lecture	Tutorial	Practical/ Practice		
V/VII	Modern Political Economy – ECON043	4	3	1	0	Class 12th Pass	NIL

### Learning Objectives

The Learning Objectives of this course are as follows:

- This course will use the methodology and tools of economics to study the implications of various political institutions and processes that determine the quantum, scope, and nature of the state's intervention in the economy.
- Political actors are assumed to be goal-oriented and political outcomes are explained by the interaction between these actors within their institutional environment.
- This course will complement the Public Economics course as its focus will be on the positive implications of the state's interventions rather than the normative aspects.

### Learning outcomes

The Learning Outcomes of this course are as follows:

- The students will learn to apply the economic paradigm to the study of political action and policy formation, and how economic and political forces may shape the incentives and constraints of policymakers and other political actors.
- They will understand the role of political institutions in shaping the actions of the state and the resulting outcomes.

### Syllabus

#### UNIT I: Collective choice and redistribution (12 hours)

Insurance motive; public good motive; fairness motive; allocative efficiency; determination of redistribution, Majority voting and direct democracy; unanimity rule; Con- direct cycles; one dimensional median voter theorem; multidimensional issues and median voter theorem; agenda manipulation; simple variations of majority voting such as the Borda rule and approval voting

#### UNIT II: Representative democracy: two-party competition; and multi-party competition (12 hours)

Downsian model; deterministic voting; cycles and median voter theorems; competition in a constrained policy space; uncovered set and valence values; model with probabilistic voting model and an application to taxation, proportionality, and electoral rules; goals of multiple parties; coalition formation with one-dimensional issue space; coalition formation with multi-dimensional issue space; strategic voting.

#### UNIT III: Rent-seeking; Tariffs and Political economy of taxation (12 hours)

Basic model of rent-seeking and variations; rent-seeking via regulation; effects of tariffs, quotas, and voluntary export restraints; corruption, Distortions, and Diamond-Mirrlees production efficiency theorem.

#### UNIT IV: Dictatorship; origins and Lobbying (9 hours)

Model of public goods provisioning; Win- Trobe's model, Interest groups, lobbying, and collective action; Olsonian model of collective action; Downsian models

### Recommended readings

- K. Shepsle and M. Bonchek (1997), *Analyzing Politics: Rationality, Behavior, and Institutions*, W. Norton
- D. Mueller (2003), *Public Choice III*, Cambridge University Press.
- K. Arrow (1963), *Social Choice and Individual Values*, Yale University Press.
- H. Demsetz (1968), Why regulate utilities? *Journal of Law and Economics* XI: 55-66.
- A. Dixit (1996), *The Making of Economic Policy*, MIT Press.
- A. Downs (1957), *An Economic Theory of Democracy*, Harper and Row.
- A. Krueger (1974), The political economy of a rent-seeking society, *American Economic Review* LXIV: 291-303.
- M. Olson (1965), *The Logic of Collective Action*, Harvard University Press.
- W. Niskanen (1995), *Bureaucracy and Public Economics*, Edward Elgar.
- D. North (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge University Press.
- A. Shleifer (2005), Understanding Regulation, *European Financial Management* 11 (4); 439-451.
- A. Shleifer and R. Vishny (1993), Corruption, *Quarterly Journal of Economics* 108 (3): 599-617.
- Kiser, E., & Karceski, S. M. (2017). Political economy of taxation. *Annual review of political science*, 20, 75-92.
- Acemoglu, D., Golosov, M., & Tsyvinski, A. (2010). Dynamic Mirrlees taxation under political economy constraints. *The Review of Economic Studies*, 77(3), 841- 881.

**Note: Examination scheme and mode shall be as prescribed by the Examination Branch, University of Delhi, from time to time.**