Political Economy for Public Policy—Fall 2010
(Public Policy 308/Political Science 302)

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Course website The course has a website at chalk.uchicago.edu

Course Description This course has two objectives. First, the course introduces three major substantive themes: (*i*) the normative foundations of policy making, (*ii*) how strategic interactions give rise to social dilemmas that create room for the government to improve social welfare, and (*iii*) how technological, institutional, and strategic constraints get in the way of governments from doing so. Second, the course introduces basic game theory. Game theory is the mathematical tool used to study strategic behavior and strategic situations. As such, it is a critical for understanding the substantive issues discussed above. In addition, understanding basic game theory is a valuable skill in its own right for policy professionals. It helps us predict and understand how people and organizations will behave in response to changes in the policy environment. As such, game theory is one of the tools one might use to think through what policy solutions are likely to come closest to achieving a given policy goal or what policies are implementable in a given political environment.

Course Requirements The course has four requirements: participation, problem sets, semester long project, and two exams.

- **Participation** You are expected to do the readings and attend class. There will also be sections led by the TAs. Attendance at these is optional but encouraged.
- **Problem Sets** There will be five problem sets during the quarter. They are due at the beginning of class on the date indicated on the syllabus. You will have a week for each problem set.

The problem sets will be graded on a 5 point scale: (5) exceptional, (4) very good, (3) meets expectations, (2) steps in the right direction but with serious mistakes, (1) seriously flawed. I anticipate that both 1 and 5 will be rare. A problem set that is not turned in will receive a 0. No late assignments will be accepted.

- **Group Project** Working in teams of four or five students, you should identify a debate over a policy area and build a simple game theoretic model of some aspect of that policy debate/area. The goal is for your analysis of the game to either highlight a policy intervention that might not have been raised in the debate or to demonstrate how some argument being made in the debate might be wrong due to a failure to appreciate some aspect of the strategic logic of the situation. The project should be written up as a brief memo—no more than 5–7 pages—that presents the game and your argument for its policy implications. Your policy example should not be one that we discuss in class. The project will be due on the second to last day of the class.
- **Exams** There will be two in-class exams. The final is comprehensive.

Course Materials There is no required text book for this course. All required reading are on the Chalk website.

Grades Grading will be based on the course requirements as follows: final exam (35%), midterm exam (25%), problem sets (25%), project (15%).

Procedures for Appealing a Grade If you believe that your grade on any assignment or exam question is incorrect or unfair,you should submit your concerns, in writing, to the head TA. The written appeal should fully summarize what you believe the problems are and why. The head TA and the TA responsible for the particular problem set will consider your appeal and respond in writing. If you are not satisfied with the response, you may resubmit the assignment or question for regrading *in its entirety* by the professor. This grade will be final.

A Note on the Course Schedule The course schedule below is likely to be somewhat in flux throughout the quarter, as various topics take more or less time than anticipated.

Course Schedule

Introduction

September 28 – Introduction

The Goals of Public Policy

Sep 30 – Normative Frameworks

No reading, this topic is too big for a single article or chapter. I'm just giving you a quick overview. If you want a book length overview that is consistent with (indeed, inspired) the view presented here, see Adam Swift. *Political Philosophy: A Beginners' Guide for Students and Politicians, 2nd Edition.*

October 5 – Setting Collective Goals

Kenneth A. Shepsle. 2010. *Analyzing Politics: Rationality, Behavior, and Institutions*, pages 53–76.

October 7 – Pareto Efficiency and Utilitarianism: A Normative Benchmark

Problem Set 1 Handed Out

Class handout

Game Theory, Social Dilemmas, and Opportunities for Pareto Improvements

October 12– Nash Equilibrium

Martin Osborne. *An Introduction to Game Theory*, Chapter 2.

October 14 – Dilemma: Externalities

Problem Set 1 Due and Problem Set 2 Handed Out

Edmund S. Phelps. *Political Economy: An Introductory Text*, Chapter 5.

October 19 – Dilemma: Coordination

Edmund S. Phelps. *Political Economy: An Introductory Text*, Chapter 5.

October 21 – Dilemma: Private Information

Problem Set 2 Due

Ken Binmore. *Playing for Real: A Text on Game Theory*, Chapter 20, Sections 20.1–20.3.

October 26 – Backward Induction

Problem Set 3 Handed Out

Martin Osborne. *An Introduction to Game Theory*, Chapter 5.

October 28 – Dilemma: Lack of Trust

Chen-Yu Chang and Graham Ive. 2007. "The hold-up problem in the management of construction projects: A case study of the Channel Tunnel." *International Journal of Project Management* 25:394–404.

November 2 – Repeated Games

Problem Set 3 Due

Paul Milgrom, Douglass North, and Barry Weingast. 1990. "The Role of Institutions in the Revival of Trade: The Medieval Law Merchant." *Economics and Politics* 2: 1–23.

November 4 – Catch Up Class

November 9 – Midterm

Incentive Problems, Political Economy Constraints, and Government Failure

November 11 – Time Inconsistency

V. V. Chari. 1988. "Time Consistency and Optimal Policy Design." *Federal Reserve Bank of Minneapolis Quarterly Review* Fall:17–31.

November 16 – Unintended Consequences

Problem Set 4 Handed Out

Walter Enders and Todd Sandler. 1993. "The Effectiveness of Anti-Terrorism Policies: Vector-Autoregression-Intervention Analysis." *American Political Science Review* 87:829-844.

November 18 – Extracting Private Information

Roger Myerson. 2007. "Nobel Lecture: Perspectives on Mechanism Design in Economic Theory." http://nobelprize.org/nobel_prizes/economics/laureates/2007/myerson_lecture.pdf

Ken Binmore. *Playing for Real: A Text on Game Theory*, Chapter 20, Sections 20.4–20.5.

November 23 – Commitment Problems

Problem Set 4 Due and Problem Set 5 Handed Out

James Fearon. 1998. "Commitment Problems and the Spread of Ethnic Conflict." In David Lake and Donald Rothchild, eds., *The International Spread of Ethnic Conflict: Fear, Diffusion, and Escalation*. Princeton: Princeton University Press.

November 30 – Capture

Problem Set 5 Due

Ernesto Dal Bó. 2006. "Regulatory Capture: A Review." *Oxford Review of Economic Policy* 22. http://oxrep.oxfordjournals.org/cgi/reprint/22/2/203

December 2 – When Bad Policy is Good Politics (with applications to foreign aid)

Group Project Due

Bruce Bueno de Mesquita, James D. Morrow, Randolph Siverson, and Alastair Smith. 2001. "Political Competition and Economic Growth." *Journal of Democracy* 12(1):58–72. http://muse.jhu.edu/journals/journal_of_democracy/v012/12.1mesquita.pdf

December 7 – Final Exam, 9–12