

Political Economics

by
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The goal of this course is to discuss current research topics in political economics. We will focus on monetary and fiscal policy, asking what are the political, institutional, economic and social determinants of macroeconomic policy choices in modern democracies. We will also discuss institutional arrangements that lend credibility to monetary policy. .

The course is based on Persson-Tabellini, *Political Economics: Explaining Economic Policy* MIT Press (PT).

Some additional readings are reprinted in Persson-Tabellini, *Economic Policy. Vol I: Credibility; Vol II: Politics*, MIT Press, 1994 (PT94)

Useful problem sets for the course are solved and discussed in the *Workbook to Accompany Political Economics – Explaining Economic Policy*, by Brocas, Castanheira, Razin and Stromberg, MIT Press 2000

Other recent general surveys of the literature are:

Drazen, *Political Economy in Macroeconomics*, Princeton University Press, 2000;
Roland, *Transition and Economics – Politics, Markets and Firms*, MIT Press, 2000

Required readings are marked with a *. The other readings are entirely optional.

1. Introduction

* PT, cap. 1

Drazen (2000), cap. 3

J. Buchanan and R. Musgrave, *Public Finance and Public Choice - Two Controversial Visions of the State*, MIT Press 1999

2. Electoral Competition and the Size of Redistributive Programs

* PT, cap. 3

PT, cap. 6

Boeri, Boersch Supan and Tabellini, *Economic Policy*, 2001

3. Special Interest Politics and the Budget Process

* PT, cap 7.1, 7.2

4. Public Debt

* PT, cap 13 (except 13.3.3)

Alesina and Perotti, *The Political Economy of Budget Deficits*, IMF Staff Papers, 1995

5. Agency and Electoral Business Cycles

* PT, cap 4.1-4.2, 4.5-4.6

6. Monetary Policy

*PT, Chapters 15, 16, 17

* Almeida and Goodhart, (1998): "Does the adoption of inflation targets affect central bank behavior?", Banca Nazionale del Lavoro Quarterly Review, Special Issue, supplement to n. 204, March

Walsh *Monetary Theory and Policy*, MIT Press, 1999

Alesina, Roubini and Cohen, *Political Cycles and the Macroeconomy*, MIT Press, 1997

Bernanke, Laubach, Mishkin, Posen, *Inflation Targets*, Princeton University Press, 1999

Svensson, L. (1999a) "Price Stability as a target for monetary policy: defining and maintaining price stability", NBER wp 7276

Svensson, L. (1999b) "How should monetary policy be conducted in an era of price stability?", working paper, University of Stockholm