

Boston College
Economics Department

EC 875 Political Economy of Trade and Development Fall, 1996

Professor: Douglas Marcouiller, S.J.
Office: Carney 139, 552-3685
Hours: M 8:30-10:30, W 3:00-4:00

Class Hour: WF 1:30-2:45
Class Room: Fulton 310

Models characteristic of the new “political economics” -- models in which economic variables interact with political processes in the movement toward equilibrium -- are at the heart of this course. For example, we will spend quite a bit of time on economic models which incorporate politics in the form of bidding by multiple principals for the services of a single agent, the incumbent governor. The general approach of political economics will be introduced at the start of the course through the use of Avinash Dixit’s new book, The Making of Economic Policy: A Transaction-Cost Politics Approach (MIT Press, 1996).

On the road to a “political economy of trade and development,” however, we will also need to visit several other sorts of analysis. The course is primarily a political economy course, but some of the issues normally addressed in a trade course or a development course will also be addressed. Several dense surveys of the literature on trade and growth and of the literature on adjustment and stabilization are included on the reading list. We will carefully study some of the models of the link between trade and technological change.

Requirements:

Students will be expected to work through the assigned reading before the class period in which it is discussed. One’s grasp of the material which has been presented and one’s ability to extend the models in relevant ways will be tested in a midterm exam on October 23 and a final exam at a date to be arranged by the Department.

Students will be asked to write four short papers. Each of the papers is to focus on one of the published models. The goals are to analyze and evaluate the published models and to indicate directions for improving them. This requirement is designed to encourage independent analysis as well as to stimulate class discussion; therefore, the papers must be done before the corresponding model is presented in class.

Finally, students will be asked to lead the class discussion of two of the published papers (unless the class is so large that a single presentation by each student seems preferable).

Grading:

Midterm 20%

Final 40%

Each paper: 8%

Presentation(s): 8%

Reading List:

The dates given are approximate. The reading list is ambitious. Some papers may not, in the end, be covered in class.

INTRODUCTION

9/4: P. Bardhan, "Economics of Development and the Development of Economics," Journal of Economic Perspectives, Spring 1993, pp. 129-142.

9/6: A. Dixit, The Making of Economic Policy: A Transaction-Cost Perspective, MIT Press, 1996, Chapter 1, "Economic Policymaking as a Political Process," and Chapter 2, "The Transaction-Cost Politics Framework," pp. 1-112.

TRADE POLICY AND DEVELOPMENT

Introducing the Trade Policy Debate

9/11: D. Rodrik, "Trade and Industrial Policy Reform," Chapter 45 in Handbook of Development Economics Volume IIIB, Elsevier, 1995, pp. 2925-2982.

Models of Technology, Trade, and Growth

With Exogenous Technology

9/13, 9/18: G. Grossman and E. Helpman, Section 1 of "Technology and Trade," Chapter 25 in Handbook of International Economics, Volume III, Elsevier, 1995, pp. 1281-1291; R. Findlay, Factor Proportions, Trade, and Growth, MIT Press, 1995, Chapters 1 and 2, pp. 1-68;

With Endogenous Technology

9/20, 9/25, 9/27: G. Grossman and E. Helpman, Sections 2 and 3 of "Technology and Trade," pp. 1292-1323; R. Findlay, Factor Proportions, Trade, and Growth, MIT Press, 1995, Chapters 3 and 4, pp. 69-120.

Models of Trade Policy: Median Voter

10/2: W. Mayer, "Endogenous Tariff Formation," American Economic Review 1984, pp. 970-985.

10/4: R. Fernandez and D. Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," American Economic Review 1991, pp. 1146-1155.

Models of Trade Policy: Common Agency

- 10/9: B. D. Bernheim and M. Whinston, "Common Agency," Econometrica 1986, pp. 923-942; B. D. Bernheim and M. Whinston, "Menu Auctions, Resource Allocation, and Economic Influence," Quarterly Journal of Economics 1986, pp. 1-31; G. Grossman and E. Helpman, "Protection for Sale," American Economic Review 1994, pp. 833-850.
- 10/11: G. Grossman and E. Helpman, "The Politics of Free Trade Agreements," American Economic Review 1995, pp. 667-690.
- 10/16: A. Dixit, G. Grossman and E. Helpman, "Common Agency and Coordination: General Theory and Application to Tax Policy," Working Paper, April, 1996.

Models of Trade Policy: Electoral Competition

- 10/18: L. Young and S. Magee, "Endogenous Protection, Factor Returns, and Resource Allocation," Review of Economic Studies, 1986, pp. 407-419; G. Grossman and E. Helpman, "Electoral Competition and Special Interest Politics," Review of Economic Studies 1996.

MIDTERM EXAM OCTOBER 23

Models in Action: Explaining Protection of Senescent Industries

- 10/25: J. Cassing and A. Hillman, "Shifting Comparative Advantage and Senescent Industry Collapse," American Economic Review 1986, pp. 516-23; S. Brainard and T. Verdier, "The Political Economy of Declining Industries: Senescent Industry Collapse Revisited", NBER Working Paper No. 4606, December 1993.

Assessing the Political Economic Models of Trade Policy

- 10/30: D. Rodrik, "Political Economy of Trade Policy," Chapter 28, Handbook of International Economics Volume 3, Elsevier, 1995, pp. 1457-1494; D. Trefler, "Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study of US Import Policy," Journal of Political Economy 1993, pp. 138-160.

MACROECONOMIC STABILIZATION AND DEVELOPMENT

- Recommended background: V. Corbo and S. Fischer, "Structural Adjustment, Stabilization and Policy Reform: Domestic and International Finance," Chapter 44 in Handbook of Development Economics Volume IIIB, Elsevier, 1995, pp. 2845-2924.
- 11/1: A. Alesina and A. Drazen, "Why Are Stabilizations Delayed?," American Economic Review, December 1991, pp. 1170-1188.

- 11/6: T. Persson and L. Svenson, "Why a Stubborn Conservative Would Run a Deficit: Policy With Time-Inconsistent Preferences," Quarterly Journal of Economics 1989, pp. 325-345.
- 11/8: T. Persson and G. Tabellini, "Designing Institutions for Monetary Stability," in Monetary and Fiscal Policy, Vol. 1: Credibility, MIT Press, 1994, pp. 279-310; A. Alesina and R. Perotti, "Budget Deficits and Budget Institutions," NBER Working Paper 5556, May, 1996.

INCOME DISTRIBUTION, GROWTH, AND DEVELOPMENT

- 11/13: A. Meltzer and S. Richard, "A Rational Theory of the Size of Government," Journal of Political Economy 1981, pp. 914-927; A. Alesina and D. Rodrik, "Distributive Politics and Economic Growth," Quarterly Journal of Economics 1994, pp. 465-490.
- 11/15: M. Osborne and A. Slivinski, "A Model of Political Competition with Citizen-Candidates," Quarterly Journal of Economics 1996; T. Persson and G. Tabellini, "Is Inequality Harmful for Growth?" American Economic Review 1994, pp. 600-621.

SOCIAL POLICY AND DEVELOPMENT

- 11/20: R. Fernandez and R. Rogerson, "On the Political Economy of Education Subsidies," Review of Economic Studies 1995, pp. 249-262; M. Rama and G. Tabellini, "Endogenous Distortions in Product and Labor Markets," CEPR Discussion Paper No. 1143, February 1995.
- 11/22: T. Persson and G. Tabellini, "Federal Fiscal Constitutions: Risk Sharing and Redistribution," Journal of Political Economy 1996, pp. 979-1009.

POLITICAL INSTITUTIONS AND POLITICAL ECONOMY

- 12/4: D. North and B. Weingast, "Constitutions and Commitment," Journal of Economic History 1989, pp. 803-832; H. Grossman and M. Kim, "Swords or Plowshares: A Theory of the Security of Claims to Property," Journal of Political Economy 1995, pp. 1275-1288.
- 12/6: R. Myerson, "Economic Analysis of Political Institutions: An Introduction," mimeo, Center for Mathematical Studies in Economics, Northwestern University, April 1996; Kenneth Shepsle, "Studying Institutions: Some Lessons from the Rational Choice Approach," Journal of Theoretical Politics 1989, pp. 131-147.