

Boston College
Economics Department

EC 875 Political Economy of Trade and Development Spring, 1998

Class Hour: TTh 1:30

Class Room: O'Neill 246

Professor James E. Anderson
Office: Carney 240, 552-3691
Hours; TTh 3-4

Professor Douglas Marcouiller, S.J.
Office: Carney 139, 552-3685
Hours: T 3:30-5:30, F 8:30-10:30

This course uses political economic models -- in which economic variables interact with political processes in the movement toward equilibrium -- to explore the formulation of trade policy, stabilization policy, and policies affecting inequality and growth. We will also explore the emergence of the political and economic institutions which define the rules of the game. Along the road to a political economy of trade and development, we will also touch some of the territory usually covered in trade courses and development courses.

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 and a final exam. Students will also be asked to write two fairly short papers. Each of these papers should extend the analysis of one of the papers on the reading list. Finally, students will be asked to lead the class discussion of one of the papers on the reading list. Detailed instructions for each of these assignments will be given in class.

Grading:

Midterm: 20%

Final: 40%

Each paper: 15%

Presentation: 10%

Reading List:

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

INTRODUCTION

A. O. Krueger (1974), "The Political Economy of the Rent-seeking Society," The American Economic Review, 64:3, June, pp. 291-303.

I. TRADE POLICY

A. Models of Technology, Trade, and Growth (January 15, 20, 22, 27, 29)

1. With Exogenous Technology

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;

2. With Endogenous Technology

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.

3. Trade Policy and Dynamics

M. B. Devereux (1997), "Growth, Specialization and Trade Liberalization", International Economic Review 38:3, August, pp. 565-586.

B. Models of Trade Policy: Median Voter (February 3)

W. Mayer (1994), "Endogenous Tariff Formation," American Economic Review 74:5, December, pp. 970-985.

R. Fernandez and D. Rodrik (1991), "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," American Economic Review 81:5, December, pp. 1146-1155.

C. Models of Trade Policy: Common Agency (February 5, 10)

B. D. Bernheim and M. Whinston (1986), "Common Agency," Econometrica 54:4, July, pp. 923-942; B. D. Bernheim and M. Whinston (1986), "Menu Auctions, Resource Allocation, and Economic Influence," Quarterly Journal of Economics 101:1, February, pp. 1-31;

- G. Grossman and E. Helpman (1994), "Protection for Sale," American Economic Review 84:4, September, pp. 833-850.
- A. Dixit, G. Grossman and E. Helpman (1997), "Common Agency and Coordination: General Theory and Application to Tax Policy," Journal of Political Economy 105:4, August, pp. 752-769.

D. Models of Trade Policy: Electoral Competition (February 12)

- L. Young and S. Magee (1986), "Endogenous Protection, Factor Returns, and Resource Allocation," Review of Economic Studies 53:3, July, pp. 407-419;
- G. Grossman and E. Helpman (1996), "Electoral Competition and Special Interest Politics," Review of Economic Studies 63:2, April, pp.265-86.

1. Micro-political foundations (February 17)

- D. Baron (1989), "Service-induced Campaign Contributions and the Electoral Equilibrium", Quarterly Journal of Economics 104:1, February, pp. 45-72.
- J. E. Anderson (1996), "The Market for Influence: a case of neglected micro-politics"

E. Models of Trade Policy: Administered Protection (February 19, 24, 26)

- R. Staiger, "International Rules and Institutions for Trade Policy", ch. 29 in Handbook of International Economics, vol. 3.
- R. Staiger and K. Bagwell (1990), "A Theory of Managed Trade", American Economic Review 80:4, September, pp. 779-795.
- J. E. Anderson (1994), "Strategic Lobbying and Antidumping", Journal of Economic Integration (special issue on dumping) 9:2, pp.129-155.
- J. E. Anderson (1993), "Domino Dumping, II: Antidumping", Journal of International Economics, 35:1-2, August, pp.133-150.
- J. E. Anderson (1992), "Domino Dumping, I: Competitive Exporters", American Economic Review 82:1, March, pp. 65-83.
- T. J. Prusa (1992), "Why Are So Many Antidumping Petitions Withdrawn?", Journal of International Economics 33:1-2, August, pp. 1-20.
- R. Staiger and F. Wolak (1992), "The Effect of Antidumping Law in the Presence of Foreign Monopoly", Journal of International Economics, 32:3-4, May, pp. 265-87.

SPRING BREAK

MIDTERM: March 10

F. Assessing the Political Economic Models of Trade Policy (March 12, 17)

- D. Rodrik, "Political Economy of Trade Policy," Chapter 28, Handbook of International Economics Volume 3, Elsevier, 1995, pp. 1457-1494;

- D. Trefler (1993), "Trade Liberalization and the Theory of Endogenous Protection: An Econometric Study of US Import Policy," Journal of Political Economy 101:1, February, pp. 138-160.
- G. Maggi and P. Goldberg (1997), "Protection for Sale: an Empirical Investigation", NBER Working Paper No. 5942, February.
- B. Blonigen and D. Figlio (1996), "Voting for Protection: Does FDI Influence Legislator Behavior?" mimeo.

G. Unfinished Business (March 19)

- D. Rodrik, "Political Economy of Trade Policy," Chapter 28, Handbook of International Economics Volume 3, Elsevier, 1995, pp. 1457-1494;
- R. Riezman and J.D. Wilson (1997), "Political Reform and Trade Policy", Journal of International Economics, 42:1-2, February, pp. 67-90.
- D. Austen-Smith (1991), "Rational Consumers and Irrational Voters: A Review Essay on 'Black Hole Tariffs and Endogenous Policy Theory'", Economics and Politics, 3:1, March, pp. 73-92.

II. MACROECONOMIC STABILIZATION AND DEVELOPMENT

(March 24, 26)

- A. Alesina and A. Drazen (1991), "Why Are Stabilizations Delayed?", American Economic Review 81:5, December, pp. 1170-1188.
- T. Persson and L. Svenson (1989), "Why a Stubborn Conservative Would Run a Deficit: Policy With Time-Inconsistent Preferences," Quarterly Journal of Economics 104:2, May, pp. 325-345.

III. INCOME DISTRIBUTION, GROWTH, AND DEVELOPMENT

(March 31, April 2)

A. Political Economy, Distribution, and Growth

- A. Meltzer and S. Richard (1981), "A Rational Theory of the Size of Government," Journal of Political Economy 89:5, October, pp. 914-927;
- A. Alesina and D. Rodrik (1994), "Distributive Politics and Economic Growth," Quarterly Journal of Economics 109:2, May, 465-490.
- G. Saint Paul and T. Verdier (1997), "Power, Distributive Conflict and Multiple Growth Paths", Journal of Economic Growth, 2, 155-168.
- A. Tornell (1997), "Economic Growth and Decline with Endogenous Property Rights", Journal of Economic Growth, 2, 219-250.

B. Empirical Work on Inequality and Growth

- T. Persson and G. Tabellini (1994), "Is Inequality Harmful for Growth?" American Economic Review 84:3, June, pp. 600-621.

IV. POLITICAL INSTITUTIONS AND POLITICAL ECONOMY

A. Constitutions (April 7)

- T. Persson and G. Tabellini (1996), "Federal Fiscal Constitutions: Risk Sharing and Redistribution," Journal of Political Economy 104:5, October, pp.979-1009.
- D. North and B. Weingast (1989), "Constitutions and Commitment," Journal of Economic History 49:4, December, pp. 803-832;
- K. Shepsle (1989), "Studying Institutions: Some Lessons from the Rational Choice Approach," Journal of Theoretical Politics, pp. 131-147.

B. Models of the Provision of Security (April 14, 16)

- H. Grossman and M. Kim (1995), "Swords or Plowshares: A Theory of the Security of Claims to Property," Journal of Political Economy 103:6, December, pp. 1275-1288.
- J. E. Anderson and D. Marcouiller (1997), "Trade and Security, I: Anarchy", NBER Working Paper No. 6223, October.
- A. Casella and J. Rauch (1997), "Anonymous Market and Group Ties in International Trade", NBER Working Paper No. 6186.
- S. Skaperdas and C. Syropoulos (1996), "Competitive Trade with Conflict" in The Political Economy of Conflict and Appropriation, Garfinkel and Skaperdas, eds., Cambridge: Cambridge University Press.

C. Models of Trade Agreements (April 21, 23, 28)

- G. Grossman and E. Helpman (1995), "The Politics of Free Trade Agreements," American Economic Review 85:4, September, pp.667-690.
- G. Maggi and A. Rodriguez-Clare (1997), "The Value of Trade Agreements in the Presence of Political Pressures", Journal of Political Economy, forthcoming.
- P. Levy (1997), "A Political-Economic Analysis of Free-Trade Agreements", American Economic Review 87:4, September, pp. 506-19.
- K. Bagwell and R. Staiger (1997), "Reciprocity, Non-discrimination and Preferential Agreements in the Multilateral Trading System", NBER Working Paper No. 5932