

Econ 215B: Political Economics

UC Berkeley, Spring 2022

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Lecture: Friday, 2-4pm, Cheit Hall 250.

Dates: January 21st to May 6th 2022. No lecture on April 8th, April 29th.

Office Hours: By Appointment (available to answer questions via email).

Course Materials: Most of the readings are online, available through JSTOR.

1. Text: Gene Grossman and Elhanan Helpman, Special Interest Politics, MIT Press, 2001. (Suggested)
2. Text: Nolan McCarthy, Polarization: What Everyone Needs to Know, Oxford University Press, 2019. (Suggested)
3. Text: David P. Baron, Business and Its Environment, Pearson, 5th edition, 2007. (Suggested)
4. Text: Jean-Jacques Laffont and Jean Tirole, A Theory of Incentives in Procurement and Regulation, MIT Press, 1993. (Suggested)

Course Objective:

This graduate course in political economy addresses the interactions among citizens, profit-maximizing firms and a vast class of non-market agents, such as governments, public administration and regulatory institutions. The class emphasizes the operative implications of non-market institutions in affecting and constraining firm strategy and individual behavior. Topics and cases cover economic and political institutions, economic policy, lobbying, clientelism, bureaucracy, regulation, antitrust, activism and the media. We corroborate the analytical framework with real-world applications, ranging from the US historical experience to cross-country comparisons, to develop insight in interpreting fundamental politico-economic constraints.

A Note on Course Materials

The bulk of course materials will come from one source: the lectures notes. We will sometime refer directly to the suggested books and the course readings however. We will also make available some supplemental lecture notes. The [supplemental notes](#) are integration to the books. The lectures of the course will describe important empirical regularities in order to help identify key questions, to guide model-building efforts, to evaluate the usefulness of the economic models, and/or to provide perspective on major politico-economic developments.

How to Succeed in the Course

To succeed is simple: Attend class, follow the lectures, and do all the readings.

Course Grade (and grading policies):

For PhD students and research-oriented Masters (upon special permission by faculty):

100% *Replication++*: You will be assigned/chose an academic paper that you not only will need to completely replicate, but you will need to augment in at least two worthy directions (these may include finding lack of robustness along relevant dimensions or show novel results you obtained). A 35 minute in-class presentation of your paper and findings is also required. You will present a written submission of your *Replication++* on the day of the last class.

Course Grading (continued)

If, for some reason (extreme medical emergency, death in the family) you cannot meet the course requirements, contact the instructor(s) in advance. For those who have an emergency and contact us in advance, you will be given a grade of an incomplete. For those who do not contact us in advance, you will fail the course.

Any test for which there is a re-grade request must be done within 7 days after we return the test material to you. The request for re-grade MUST be done in writing and attached to the test material when submitting the material for a re-grade. The request must include a description of what the problem is and why you think the test should be graded differently.

Communication

On occasion, we will post email questions from students and answers to these questions. We will discuss the questions that we think lots of students have. Hopefully, this will be an efficient way to disseminate information and review core material from the course. All student identifiers will be removed when we post the questions.

Note: If you do not want your question posted, you can explicitly state that in any emails you send.

Additionally, we will tend to only answer email questions 2 days a week. We will set these days as the class progresses. Tentatively, we will plan on allocating Monday afternoons and Friday afternoons for responding to emails.

Honor Code

Even if not explicitly stated on each test, the honor code is always in effect. This is especially true in a time of crisis such as now. As members of the UC-Berkeley community, our expectation is that you will adhere rigorously to the UC-Berkeley Honor Code. Anyone caught cheating on any test in this course will receive a failing grade in the course and will also be reported to the University Center for Student Conduct. For further information see: www.asuc.org/honorcode/.

Other Help and Resources

Accommodation services through the Disabled Students Program Office are available. Students would seek services through that office and a letter will get sent to me of the necessary needs of each individual student (i.e. additional time on exams, etc.).

Counseling services are available for all UC Berkeley students through the Tang Center, regardless of insurance plan. They are excellent and this is a tough time.

Online Etiquette

In case of emergencies, we are going to use Zoom Live Sessions. By participating to our synchronous online lectures, you automatically consent to be part of any recordings, video and audio, whose sole ownership and rights belong to our beloved University (not to me or others), which will guard them and use them for the greater good of fostering human knowledge (I am a believer). See details at the end of syllabus.

The following etiquette and protocols are endorsed by the Haas School of Business and student representatives and are expected of you:

Participation & Communication

- Strive to learn from one another and build on one another's contributions.
- Do not drive while zooming into a classroom
- Use the chat feature to pose a question or comment to the entire class. If you want to address a single participant, use the chat feature to address that specific person.
- Be respectful and inclusive of one another both verbally and in chat.
- Be aware of strong language, all caps, and exclamation points
- Do not post or share (even privately) inappropriate material.
- Once class begins use group chat for class content only.

Professionalism

- Log-in to the session on time. Just like a face-to-face course, you are expected to arrive at the scheduled time.
- Refrain from eating while participating in a breakout room or engaging in a Q&A session. If you need to excuse yourself for a snack, please disable your video.
- Dress as if you are out in public. If you are attending from home, please maintain the same level of presentation as you would in the work place or at the university.
- Attend the presentation from a sitting position. Laying down is not acceptable.
- Find a professional location for your zoom classroom (i.e. desk, table, quiet room); if not possible consider using a green screen.
- Most importantly, remember that this is a professional environment and presenting yourself professionally is a sign of respect to other students as well as your instructor.

Audio and Video

- Mute your microphone when you are not speaking. Unmuted microphones can cause disruptions to the lecture or the discussion.
- Have your camera on by default. Being present in the Zoom room visually encourages interaction and social presence.
- If possible, position a light behind your camera but directed toward you such as a window or desk lamp. Lighting from the side is acceptable, but if the source comes from behind, you will be in shadow.

Discussion on bCourses

- Check the discussion frequently and respond appropriately and on subject. Focus on one subject per message and use pertinent subject titles.
- Capitalize words only to highlight a point or for titles—Capitalizing otherwise is generally viewed as SHOUTING!
- Be professional and careful with your online interaction. Cite all quotes, references, and sources.
- When posting a long message, it is generally considered courteous to warn readers at the beginning of the message that it is a lengthy post. It is considered extremely rude to forward someone else’s messages without their permission. It is fine to use humor, but use it carefully. the absence of face-to-face cues can cause humor to be misinterpreted as criticism or flaming (angry, antagonistic criticism). Feel free to use emoticons such as a smiley face or 😊 to let others know that you are being humorous.

Course Outline/Reading List

The lectures of the course will describe important empirical regularities in order to help identify key questions, to guide model-building efforts, to evaluate the usefulness of the economic models, and/or to provide perspective on major politico-economic developments.

Topics covered in the course (and some of, but not all, the ancillary readings) are:

Topic 1: Autocracies and Democracies

Acemoglu, Daron and James Robinson, 2000, “Why did the West Extend the Franchise? Democracy, Inequality, and Growth in Historical Perspective,” *Quarterly Journal of Economics*, 115(4): 1167-1199.

Acemoglu, Daron and James Robinson, 2001, “A Theory of Political Transitions” *American Economic Review*, 91(4): 938-963.

Acemoglu, Daron, Suresh Naidu, Pascual Restrepo, James A. Robinson 2019. “Democracy Does Cause Growth” *Journal of Political Economy*, 127(1), pp. 47-100.

Philippe Aghion, Alberto Alesina and Francesco Trebbi (2004) “Endogenous Political Institutions,” *Quarterly Journal of Economics* 119: 565-612.

Robert Barro “Determinants of Democracy”, *Journal of Political Economy* December 1999.

Besley, Timothy and Masayuki Kudamatsu. 2007. “Making Autocracy Work.” London School of Economics <http://econ.lse.ac.uk/staff/tbesley/papers/maw.pdf>

Chang-Tai Hsieh, Ted Miguel, Daniel Ortega, and Francisco Rodriguez. “The Price of Political Opposition: Evidence from Venezuela’s Muisaca.” *American Economic Journal: Applied Economics* vol. 3, no. 2, April 2011, pp. 196-214

Gian Maria Milesi-Ferretti, Roberto Perotti and Massimo V. Rostagno (2002) “Electoral Systems and Public Spending,” *Quarterly Journal of Economics* 117(2), pp. 609-657

Torsten Persson and Guido Tabellini (2000) “Comparative Politics and Public Finance,” *Journal of Political Economy*, vol. 108, pp. 1121–1161

Persson Tabellini ch. 8 Electoral Rules and Electoral Competition

Persson Tabellini ch. 10 Political Regimes

Adam Przeworski et al. Democracy and Development Political regimes and Material well-being in the World: 1950-1990, Cambridge University Press, 2000.

Francesco Trebbi, Philippe Aghion, and Alberto Alesina. “Electoral Rules and Minority Representation in US Cities”, *Quarterly Journal of Economics*, February 2008, 123(1): pp. 325-357

Federico Ricca and Francesco Trebbi. “Minority Underrepresentation in U.S. Cities”, mimeo 2022.

Topic 2: Conflict and Violence

König, Michael and Rohner, Dominic and Thoenig, Mathias and Zilibotti, Fabrizio. 2017 “Networks in Conflict: Theory and Evidence from the Great War of Africa” *Econometrica*, 85(4).

Trebbi, Francesco, and Eric Weese. 2019. Insurgency and Small Wars: Estimation of Unobserved Coalition Structures. *Econometrica*, March, 87(2): pp.463-496.

Trebbi, Francesco, Eric Weese, Austin Wright, and Drew Shaver. 2020. “Insurgent Learning” *Journal of Political Institutions and Political Economy*, September, 1(3): pp.417-448.

Topic 3: Political Economy of China

Persico, N., Pueblita, J.C. and Silverman, D., 2011. Factions and political competition. *Journal of Political Economy*, 119(2), pp.242-288.

Meng, Xin Nancy Qian Pierre Yared 2016 “The Institutional Causes of China’s Great Famine, 1959-1961” *Review of Economic Studies*

Francois, Patrick, Francesco Trebbi, Kairong Xiao. 2017. “Factions in Nondemocracies: Theory and Evidence from the Chinese Communist Party”, NBER WP 22775.

Lorentzen, Peter and Lu Xi “Personal Ties, Meritocracy, and China’s Anti-Corruption Campaign,” mimeo University of San Francisco

Topic 4: Hybrid Regimes, Corruption, Clientelism

Ferraz, Claudio, and Frederico Finan. “Electoral accountability and corruption: Evidence from the audits of local governments.” *American Economic Review* 101.4 (2011): 1274-1311.

Eric Avis, Fred Finan, and Claudio Ferraz. 2018 “Do Government Audits Reduce Corruption? Estimating the Impacts of Exposing Corrupt Politicians.” *Journal of Political Economy*.

Olken, Benjamin A., and Patrick Barron. "The simple economics of extortion: evidence from trucking in Aceh." *Journal of Political Economy* 117, no. 3 (2009): pp.417-452.

Cruz, Cesi, Phil Keefer, Julien Labonne, and Francesco Trebbi. 2018. "Making Policies Matter: Voter Responses to Campaign Promises". NBER WP 24785.

Topic 5: Voters & Elections

Kawai, Kei, and Yasutora Watanabe. 2013. "Inferring Strategic Voting." *American Economic Review*, 103(2): 624-62.

Thomas Fujiwara (2011), "A Regression Discontinuity Test of Strategic Voting and Duverger's Law", *Quarterly Journal of Political Science*: Vol. 6: No. 3-4, pp 197-233.

Kendall, Chad, Tommaso Nannicini Francesco Trebbi. 2015. "How Do Voters Respond to Information? Evidence from a Randomized Campaign", *American Economic Review*, 105(1): pp.322-53.

Broockman, David and Joshua Kalla "The Minimal Persuasive Effects of Campaign Contact in General Elections: Evidence from 49 Field Experiments" (with Joshua Kalla) *American Political Science Review*, 112 no. 1 (2018).

Broockman, David and Joshua Kalla (2021) When and Why Are Campaigns' Persuasive Effects Small? Evidence from the 2020 US Presidential Election. Mimeo UC Berkeley

Knight, Brian, and Nathan Schiff. "Momentum and social learning in presidential primaries." *Journal of Political Economy* 118.6 (2010): 1110-1150.

Coate, Stephen, Michael Conlin, and Andrea Moro. "The Performance of Pivotal Voter Models in small-scale Elections: Evidence from Texas Liquor Referenda." *Journal of Public Economics* 92.3 (2008): 582-596.

Topic 6: Legislatures and Parties

McCarthy, Nolan (2019) Polarization: What Everyone Needs to Know, Ch. 1-3, 5.

Lee, David, and Enrico Moretti, and Matthew J. Butler (2004). "Do Voters Affect or Elect Policies? Evidence from the U.S. House," *Quarterly Journal of Economics*, 119(3), 807-859.

Canen, Nathan, Kendall, Chad, and Francesco Trebbi. 2020. "Unbundling Polarization", *Econometrica*, May 2020, 88(3): pp.1197-1233.

Canen, Nathan, Kendall, Chad, and Francesco Trebbi. 2021. "Political Parties as Drivers of U.S. Polarization: 1927-2018", *NBER wp* 28296.

Krehbiel, K. (1993). Where's the party? *British Journal of Political Science*, 23(2):235-266.

Krehbiel, K. (2000). Party discipline and measures of partisanship. *American Journal of Political Science*, pages 212-227.

Levitt, S. D. (1996). How do senators vote? Disentangling the role of voter preferences, party

affiliation, and senator ideology. *American Economic Review*, 86(3):425–441.

Moskowitz, D. J., Rogowski, J., and James M. Snyder, J. (2017). Parsing party polarization. *mimeo*.

Spenkuch, Jorg, Pablo Montagnes, and Daniel Magleby. 2018 “Backward Induction in the Wild? Evidence from Sequential Voting in the US Senate.” *American Economic Review*. (forthcoming *American Economic Review*)

Heckman, J. J. and Snyder, J. M. (1997). Linear probability models of the demand for attributes with an empirical application to estimating the preferences of legislators. *The RAND Journal of Economics*.

Jenkins, J. A. (2000). Examining the robustness of ideological voting: evidence from the confederate house of representatives. *American Journal of Political Science*, pages 811–822.

Snyder, James M., and Timothy Groseclose. 2000. “Party Influence and Congressional Roll-Call Voting.” *American Journal of Political Science* 44: 193-211.

Dal Bó, Ernesto and Martín Rossi (2011). “Term Length and the Effort of Politicians,” *Review of Economic Studies*, 78(4), 1237-1263

Diermeier, Daniel, Michael Keane, and Antonio Merlo. 2005. “A Political Economy Model of Congressional Careers.” *American Economic Review*, 95:347–373

Matilde Bombardini, Bingjing Li, Francesco Trebbi. 2020. “Did U.S. Politicians Expect the China Shock?”, NBER WP 28073.

Knight, Brian. ”Estimating the value of proposal power.” *American Economic Review* 95.5 (2005): 1639-1652.

Topic 7: Lobbying, Special Interests, Money in Politics

Ansola-behere, Steven, John de Figueiredo, James Snyder (2003). “Why is There so Little Money in U.S. Politics?” *Journal of Economic Perspectives*, 17(1) ,105-130.

Bertrand, Marianne, Matilde Bombardini and Francesco Trebbi. (2014). “Is It Whom You Know or What You Know? An Empirical Assessment of the Lobbying Process”, *American Economic Review*, 104(12): pp.3885-3920.

Blanes we Vidal, Jordi, Draca, Mirko and Fons-Rosen, Christian. (2012) “Revolving door lobbyists”, *American Economic Review*, Vol.102 (7). pp. 3731-3748.

Kang, Karam (2016). “Policy Influence and Private Returns from Lobbying in the Energy Sector”, *Review of Economic Studies*, Vol. 83(1), pp. 269-305.

Grossman, Gene and Elhanan Helpman, “Protection for Sale”, *American Economic Review*, 84: 833-850, 1994.

Grossman, Gene and Elhanan Helpman, *Special Interest Politics*. Ch.8-10

- Goldberg, Pinelopi, Koujianou, and Giovanni Maggi. 1999. "Protection for Sale: An Empirical Investigation." *American Economic Review*, 89(5): 1135-1155.
- Stratmann, Thomas, "Some Talk: Money in Politics. A (Partial) Review of the Literature," *Public Choice*, 124(1-2): 135-156, 2005
- Austen-Smith, D., "Interest groups, campaign contributions, and probabilistic voting", *Public Choice*, 54 (2), 123–139, 1987.
- Austen-Smith, D., "Strategic transmission of costly information", *Econometrica*, 62, 955– 963, 1994.
- Austen-Smith, D., "Campaign contributions and access", *American Political Science Review*, 89 (3), 566–581, 1995.
- Austen-Smith, D., Banks, J.S., "Costly signaling and cheap talk in models of political influence", *European Journal of Political Economy*, 18, 263– 280, 2002.
- Diermeier, Daniel, Michael Keane, and Antonio Merlo. 2005. "A Political Economy Model of Congressional Careers." *American Economic Review*, 95:347–373
- Goldberg, Pinelopi Koujianou, and Giovanni Maggi. "Protection for sale: An empirical investigation." *American Economic Review* 89.5 (1999): 1135-1155.
- Feldmann, Sven and Morten Bennesen. "Informational Lobbying and Political Contributions", *Journal of Public Economics*, 90.4-5, 631-656, 2006.
- Bombardini, Matilde and Francesco Trebbi, "Votes or Money? Theory and Evidence from the US Congress," *Journal of Public Economics*, August 2011, 95(7-8): pp. 587-611.
- Bombardini, Matilde and Francesco Trebbi, "Competition and Political Organization: Together or Alone in Lobbying for Trade Policy?" *Journal of International Economics*, May 2012, 87(1): pp. 18-26.
- Bombardini, Matilde and Francesco Trebbi, "Empirical Models of Lobbying," *Annual Review of Economics*, Summer 2019.
- Olson, Mancur," *The Logic of Collective Action: Public Goods and the Theory of Groups*", Harvard University Press, Cambridge, 1965.
- Potters, Jan, and Frans Van Winden. "Lobbying and Asymmetric Information." *Public Choice* 74, no. 3 (1992): 269-92.
- Bertrand, Marianne, Matilde Bombardini, Ray Fisman, and Francesco Trebbi. 2018. "Tax-Exempt Lobbying: Corporate Philanthropy as a Tool for Political Influence". *American Economic Review*, Forthcoming.
- Perez-Truglia, R. and Cruces, G. (2017). Partisan Interactions: Evidence from a Field Experiment in the United States. *Journal of Political Economy*, Vol. 125 (4), pp. 1208–1243.

Topic 8: Regulation and Antitrust

Ch. 9 Antitrust: Economics, Law, and Politics

Baron, David P., *Business and Its Environment*, Pearson, 5th edition, 2007.

Ch. 10 Regulation: Law, Economics and Politics

Baron, David P., *Business and Its Environment*, Pearson, 5th edition, 2007.

Ch. 1-2 Laffont, Jean-Jacques and Jean Tirole. *A Theory of Incentives in Procurement and Regulation*, MIT Press, 1993.

Laffont, Jean-Jacques and Jean Tirole, "The politics of government decision making: regulatory institutions", *Journal of Law, Economics and Organization*, 6 (1), 1 –31, 1990.

Lucca, David, Amit Seru, Francesco Trebbi, 2014 "The Revolving Door and Worker Flows in Banking Regulation" (with David O. Lucca and Amit Seru). *Journal of Monetary Economics*, July, 65: pp.17-32.

Agarwal, Sumit David Lucca, Amit Seru, Francesco Trebbi, 2014 "Inconsistent Regulators: Evidence from Banking" *Quarterly Journal of Economics*, May, 129(2): pp.889-938.

Trebbi, Francesco, Kairong Xiao. 2015 Regulation and Market Liquidity *Management Science*, May 2019, 65(5): pp.1949-1968.

Topic 9: The Media

Besley, Timothy, and Andrea Prat. 2006. "Handcuffs for the Grabbing Hand? Media Capture and Government Accountability." *American Economic Review* 96(3): 720–36

DellaVigna S, Kaplan E. 2007. The Fox News effect: media bias and voting. *Quarterly Journal of Economics* 122:1187–234

DellaVigna, Stefano and Gentzkow, Matthew, (2010), Persuasion: Empirical Evidence, *Annual Review of Economics*, 2, issue 1, p. 643-669

Gentzkow M, Shapiro JM. 2006. Media bias and reputation. *Journal of Political Economy* 114:280–316

Gentzkow M, Shapiro JM. 2010. What drives media slant? Evidence from US daily newspapers. *Econometrica* 78:35–71

Gentzkow M, Shapiro JM. 2011. Ideological segregation online and offline. *Quarterly Journal of Economics* 126:1799–839

Gerber AS, Karlan D, Bergan D. 2009. Does the media matter? A field experiment measuring the effect of newspapers on voting behavior and political opinions. *AEJ: Appl. Econ.* 1:35–52

Groseclose T, Milyo J. 2005. A measure of media bias. *Quarterly Journal of Economics* 120:1191–237

Prat, Andrea 2018. "Media Power," *Journal of Political Economy*, University of Chicago Press, vol. 126(4), pages 1747-1783.

Puglisi, Riccardo and James Snyder, 2015. "The Balanced Us Press," *Journal of the European Economic Association*, vol. 13(2), pages 240-264

Shleifer, Andrei, 2015 “Matthew Gentzkow, Winner of the 2014 Clark Medal” *Journal of Economic Perspectives*, 29(1), pp. 181–192

Stromberg, David. “Mass media competition, political competition, and public policy.” *The Review of Economic Studies*. 71.1 (2004): 265-284.

Snyder, James and David Strömberg, 2010. “Press Coverage and Political Accountability”, *Journal of Political Economy*, 118(2), 355-408.

Levy, Ro’ee, 2021. “Social Media, News Consumption and Polarization: Evidence from a Field Experiment”. *American Economic Review*, forthcoming

Daniel J. Moskowitz. 2021. "Local News, Information, and the Nationalization of U.S. Elections." *American Political Science Review* 115(1): 114-129.

Topic 10: Conflicting Interests, Reforms, and Crises

Ch. 7 Elections and Changes of Policymakers. Drazen, Allan, *Political Economy in Macroeconomics*, Princeton University Press, 2000.

Ch. 8 Redistribution. Drazen, Allan, *Political Economy in Macroeconomics*, Princeton University Press, 2000.

Ch. 10 Inaction, Delay, and Crisis, Drazen, Allan. *Political Economy in Macroeconomics*, Princeton University Press, 2000.

Alesina, Alberto and Allan Drazen, "Why Are Stabilizations Delayed?", *American Economic Review*, American Economic Association, vol. 81(5), pages 1170-88, December, 1991.

Allan Drazen and Vittorio Grilli “The Benefits of Crises for Economic Reforms” *American Economic Review*, American Economic Association, vol. 83(3), 1993.

Atif, Mian, Amir Sufi, and Francesco Trebbi, 2012 “Resolving Debt Overhang: Political Constraints in the Aftermath of Financial Crises”, *American Economic Journal: Macroeconomics*, April 2014, 6(2): pp. 1-28.

Atif, Mian, Amir Sufi, and Francesco Trebbi, 2010 “The Political Economy of the US Mortgage Default Crisis” *American Economic Review*, December, 100(5): pp. 1967–98.

Michael D. Bordo, Christopher M. Meissner 2012 “Does Inequality Lead to a Financial Crisis?” NBER Working Paper No. 17896

Michael D. Bordo, Christopher M. Meissner 2011 “Do financial crises always raise inequality? Some Evidence from History” mimeo UCSD.

Topic 11: Judges and Law and Economics

Matias Iaryczower, Xiaoxia Shi, Matt Shum. 2018. “Can Words Get in the Way? The Effect of Deliberation in Collective Decision-Making” *Journal of Political Economy*, Vol. 126(2), 688-734

Matias Iaryczower, Matt Shum. 2012. "The Value of Information in the Court: Get it Right, Keep it Tight" *American Economic Review*, Vol. 102, pp. 202-237.