

TOPICS IN POLITICAL ECONOMY

ALEJANDRO SAPORITI

FALL 2007

Course Description

This course is designed to introduce students into the theoretical foundations of political economy. The course begins reviewing a few important results of individual choice theory. We study the preference-based approach and the choice-based approach, and we discuss several conditions on preferences and choices to ensure a well defined theory of rational choice.

The second part of the course reviews some aspects of social choice theory. This theory is concerned with the possibility of deriving social preferences or collective decisions by directly aggregating the preferences of the individuals in the society. The difficulty of doing that in a satisfactory way has been clearly pointed out by Arrow's impossibility theorem, which we present and discuss in detail. We complete the analysis by studying two main alternatives to overcome Arrow's result, which consist basically in either (i) assuming some form of homogeneity (domain restriction) in individual preferences, or (ii) imposing some structure over the set of possible alternatives.

The theory of collective choice reviewed in the second part assumes that either: (i) individuals' preferences are perfectly known by the policy makers, or that (ii) agents are willing to honestly reveal such information. Neither of these two assumptions is a good approximation of what happens in reality. The existence of information that is observed privately by rational and self-interested actors creates severe incentive compatibility problems in social choice, and that is the subject of the last part of this course. We examine the literature on strategy-proofness and Nash implementation, and we study the outcomes emerging from a few important mechanisms, namely, binary agendas, voting by committees, and electoral competition.

Course Requirements

The course is expected to be run through a total of 10 meetings, of 4 hours each. Class attendance is compulsory. A set of problems will be distributed each week, and a final exam will be given at the end of the course. In addition, there will be class presentations. The final grade of the course will be based on these three factors, according with the following distribution of weights:

1. In-class presentations (20%);
2. Problem sets (30%);
3. Final exam (50%).

Lectures will be based on three main sources:

1. Austen-Smith, D., and J. Banks (1999) *Positive Political Theory I: Collective Preference*, Ann Arbor: The University of Michigan Press;
2. Austen-Smith, D. and J. Banks (2005) *Positive Political Theory II: Strategy and Structure*, Ann Arbor: The University of Michigan Press;
3. Mas-Colell, A, Whinston, M., and J. Green (1995) *Microeconomic Theory*, Oxford University Press.

Additional references will be provided during the semester. Copies of the problem sets and some handouts will be available online.

Course Topics

1. Preference and choice.
2. Power and collective rationality.
3. Restricting outcomes.
4. Restricting preferences.
5. The spatial model.
6. Instability and chaos.
7. Strategy-proofness.
8. Nash implementation.
9. Specific mechanisms: Binary agendas; voting by committees; elections.