ECONOMICS 410 Public Choice

Spring 2017

Location: Planetary 120   **Days and Time:** Thursday 720-10pm

Instructor: Eric Hammer   **Email:** ehammer@gmu.edu

Office Hours: Thursday 5-7pm, Mason Hall D167-2 (cubicle farm) and by appointment

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Objectives: The course provides a survey of public choice, also known as political economy, rational choice theory, or the economics of politics. It covers voting models, public opinion, interest groups, rent-seeking… In a nutshell, we will be discussing how people make decisions as a group, and what happens when we assume that governmental actors behave like regular humans are assumed to. Students will end the course with a grasp of the economic approach to politics, and political institutions.

No college level math is required, but this class will involve a fair bit of reading and writing, as well as in class discussion. The readings will help to illuminate the topics covered in lectures as well as give differing perspectives and insights into the issues. Basic microeconomic principles are needed as a foundation to the material, and basic algebra will help with a few concepts but is not required.

Course Materials: Four books are required for this course, all available relatively inexpensively or free. The bookstore will carry all of them, in case Amazon does not have a reasonable price.

- Robert Cooter, *The Strategic Constitution*, available at:
    - http://www.law.berkeley.edu/faculty/cooterr/PDFpapers/stratcon.PDF
- Mancur Olson, *The Logic of Collective Action*
- Donald Wittman, *The Myth of Democratic Failure*
- Bryan Caplan, *The Myth of the Rational Voter*

I would also recommend students interested in the field of political economy own a copy of Machiavelli's *The Prince* and *Discourses on Livy*, as well as Thomas Schelling's *The Strategy of Conflict.* These are not required for this course, but are of immense value (and quite short and inexpensive).

Further readings will be from articles or essays relating to a topic, either provided in class or free online.

Important Dates:

First Day of Class: Jan 23

Last Day to Drop: Feb 24

Spring break: Mar 13 -19

Midterm: **TBD**

Final Exam: May 11

Grading: There will be two exams for the course: one 80 minute midterm and one comprehensive final. There will also be homework assignments every class, 12 in total. The grade breakdown is as follows:

- Midterm: 30%
- Final: 30%
- Homework: 40%

Homework: There will be homework every class, to be handed in as a **typed hardcopy** the next class; no late homework will be accepted. Homework will consist of 5-10 questions based on the lectures and readings. The questions will be very similar to the exam questions, so if you can comfortably answer them you are likely in good shape for the exam.

In addition, every period 2-3 students will responsible for doing the reading and being ready to discuss it in class the next day. Every student will have to do this once, and it will count as a homework assignment. Failure to appear for class if you are one of the responsible students will count as not handing in the homework (barring medical excuse, etc.)

The homework will be graded at 10 points per assignment, out of 100; to get full points you must complete and hand in at least 10 assignments, and extra assignments will enhance your grade. There is a very high correlation between the amount of time spent on homework and exam grades in my experience, and so I encourage students to do every homework assignment.

Students are encouraged to work in groups on the homework. However, if that is done, I request that every student's name be on the homework. That is, either hand in one homework with everyone's name on it, or multiple homeworks with everyone's names on them.

Reminder: Homework is due the next class after it is assigned; if a student cannot make it to class that day it is acceptable to email a typed copy (please, no cell phone photos of hand written homework) to me before class begins (7:20pm). All homework must be typed, and only 3 emailed homeworks will be accepted!

Exams: The exams will consist of multiple choice questions relating to the concepts and materials covered in lecture, as well as an essay portion that requires the students to apply the concepts to a new situation described in the question. Topics covered will be limited to what is covered in lecture and in the homework.

GRADING SCALE: I use a ten-point scale. 90-100: A; 80-89, B; 70-79, C; 60-69, D. Below 60 is an F. These numbers are firm. If the weighted average of your homework and exam grades is 89, you will have earned a B for the course – not an A. Please do not ask me to raise your grade. I never grant such requests. I am not in the business of giving grades: I merely report the grade that you earn.

Office Hours: The best way to contact me is by email at ehammer@gmu.edu. I usually get back to email within an hour or so. My office hours are 5-7 on Thursdays in Mason Hall, desk 167-2 in the Economics Department. I can also meet with students by appointment on other days with enough lead time.

ACADEMIC INTEGRITY: GMU is an Honor Code university; please see the University Catalog for a full description of the code and the honor committee process. The principle of academic integrity is taken very seriously and violations are treated gravely.

What does academic integrity mean in this course? Essentially this: when you are responsible for a task, you will perform that task. When you rely on someone else's work in an aspect of the performance of that task, you will give full credit in the proper, accepted form. That includes inline citations of sources used beyond lecture notes, i.e. the books, webpages, articles.

Another aspect of academic integrity is the free play of ideas. Vigorous discussion and debate are encouraged in this course, with the firm expectation that all aspects of the class will be conducted with civility and respect for differing ideas, perspectives, and traditions. When in doubt (of any kind) please ask for guidance and clarification.

Lecture Schedule and Readings

Readings. Readings may be added or moved based on the progress of the class. Reading the text is not a substitute for coming to class, but perhaps a valuable supplement. I will inform you at the end of every class what the next class's topics will be, as well as the relevant readings. Readings are for the next class. (Cooter book pagination is given first, followed by Cooter online pdf pagination in italics.)

PART I: Voting Models

Week 1: Public Goods, Externalities, and Comparative Institutions
· 	What is public choice?
· 	Private benefits and costs
· 	Social benefits and costs
· 	The tragedy of the commons
· 	Negative externalities (aka "public bads")
· 	Ex: Pollution
· 	Positive externalities (aka "public goods")
· 	Ex: Defense
· 	Bad but popular examples
· 	Good but unpopular examples
· 	Externalities, efficiency, and fairness
· 	Coase, property rights, and externalities
· 	Application: Regulation versus tradeable permits
· 	Externalities generalized
· 	The comparative institutions approach

Readings: none

Week 2: The Logic of Collective Action
· 	Fallacies of group action
· 	Social benefits versus private costs
· 	Individual impact: probability and magnitude
· 	Calculating the probability of decisiveness
· 	Efficiency and collective action
· 	Empirical evidence on collective action problems
· 	The paradox of public good provision

Readings:
Olson, chapters 1-2, 6

Week 3: The Median Voter Model
· Rational, instrumental voting
· Single-peaked preferences
· Two-party, winner-take all elections
· Political competition and platform convergence
· Voter participation and franchise restrictions
· The effect of fringe parties
· Multi-peaked preferences
· Individual and social intransitivity
· Cycling and Condorcet winners
· Multiple voting dimensions

Readings:
Cooter, pp. 17-30, 37-43 *{42-62, 73-82}*

Week 4: Rational Ignorance and the "Miracle of Aggregation"
· The economics of imperfect information
· Political knowledge and rational ignorance
· Empirical evidence on political knowledge
· Informed voting as a public good
· Education and voter ignorance
· Voter ignorance, principal-agent problems, and optimal punishment
· The principle of aggregation
· Voter ignorance and the "miracle of aggregation"
· Uncertainty and platform convergence

Readings:
Cooter, pp. 63-65 *{108-110}*
* Dye and Zeigler, *Irony of Democracy*, pp.130-135 ("Mass Political Ignorance" and "Mass Political Apathy")

Week 5: Efficiency and Bargaining
· Divergence between median and mean preferences on a single dimension
· Log-rolling, bargaining, and the Coase theorem
· Bargaining to efficiency on one dimension
· Bargaining to efficiency on multiple dimensions
· Bargaining around intransitivity
· Pork barrel politics
· Supermajority rules

Readings:
Cooter, pp. 32-36, 51-58 *{66-71, 92-101}*

Week 6: Basics of Public Opinion and Voter Motivation
·   Is the median voter model correct?
·   The self-interested voter hypothesis (SIVH)
·   Empirical evidence on the SIVH
·   Sociotropic voting
·   Ideological voting
·   Education, ideology, income, and opinion
·   Group-interested voting
·   Case study: the determinants of party identification
·   The dimensionality of U.S. political opinion
·   The SIVH versus the logic of collective action

Readings:
* Dye and Zeigler, *Irony of Democracy*, pp.121-130 ("Antidemocratic Attitudes Among the Masses," "Are the Masses Becoming More Tolerant," and "Changing Targets of Intolerance")
* Sears and Funk, "Self-Interest in Americans' Political Opinions"

Week 7: Empirical Accuracy of the Median Voter Model
·   The median voter model versus U.S. constitutional structure
·   The case for simple models: Do constitutions really matter?
·   U.S. government policy: an overview
·   Does policy match public opinion?
·   What are the unpopular policies?
·   Application: State-level policy
·   Adjusting for bargaining

Readings:
Cooter, pp. 43-47 *{82-87}*

MIDTERM 1ˢᵗ Half of Class Week 8

PART II: Advanced Topics

Week 8: Division of Powers, Special Interests, and Rent-Seeking
·   Principal-agent problems, multiple agents, and overlapping principals
·   Division of powers and minimum winning coalitions
·   Bicameralism
·   Presidential veto
·   The role of the judiciary
·   The logic of divided government; log-rolling between the branches of government
·   Special interests and the median voter model
·   Campaign contributions, political advertising, and rational ignorance
·   Concentrated benefits, diffuse costs
·   Bureaus and budget maximization
·   Lobbying in equilibrium: rent-seeking and rent dissipation
·   Application: Import substitution industrialization

Readings:
Cooter, pp. 65-75, 96-98, 151-153, 185-191, 195-198, 215-218 *{111-125, 158-161, 238-241, 288-297, 303-307, 330-334}*

Week 9: Political Competition and Political Collusion
·   Restrictions on political competition: term limits and spending limits
·   Pure versus local public goods
·   Tiebout and inter-governmental competition
·   Some perverse incentives of non-profit competition
·   Federalism: for and against
·   Federal grants and the "race to the bottom"

Readings:
Cooter, 103-106, 127-138 *{167-171, 197-218}*

Weeks 10-11: Wittman's *Myth of Democratic Failure*
·   Critiques of the economic approach
·   Wittman's challenge to orthodox public choice
·   "Extreme voter stupidity"
·   "Serious lack of competition"
·   "Excessively high transactions costs"
·   The effect of asymmetric political information
·   Wittman's sampler: Responses to diverse political failures
·   Validity versus soundness

Readings:
Wittman, chapters 1-3, 6-8, 11

Week 12: Expressive Voting
·   The instrumental voting assumption
·   Instrumental versus expressive value
·   Decisiveness revisited
·   Decisiveness and the relative prices of instrumental and expressive voting
·   Expressive voting as political pollution
·   Inefficient unanimity
·   Application: Environmentalism
·   Answering Wittman, I

Readings:
Caplan, pp.1-84

Week 13: Systematic Bias Versus the Miracle of Aggregation
·   Return to the "miracle of aggregation"
·   Ignorance, irrationality, and systematic error
·   Rational ignorance versus rational irrationality
·   Irrationality as political pollution
·   Inefficient unanimity again
·   Systematically biased beliefs about economics
·   Availability cascades
·   Application: Protectionism
·   Answering Wittman, II

Readings:
Caplan, pp.94-162

Week 14: Democracy, Dictatorship, and Markets
·   The comparative institutions approach revisited
·   Critically evaluating democracy
·   Government as a solution for public goods problems
·   Government in the real world
·   Some political economy of dictatorship
·   Constitutional reform and endogenous institutions
·   Markets as the alternative to democracy
·   Market failure versus democratic failure
·   Searching for asymmetries
·   Concluding thoughts

Readings:
Wittman, chapters 13-14
Rothbard, *Power and Market*, "Utility *Ex Post*", http://mises.org/rothbard/mes/chap14.asp#2E._Utility_ExPost

GMU EMAIL ACCOUNTS

Students must use their Mason email accounts—either the existing "MEMO" system or a new "MASONLIVE" account to receive important University information, including messages related to this class. See http://masonlive.gmu.edu for more information.

OFFICE OF DISABILITY SERVICES

If you are a student with a disability and you need academic accommodations, please see me and contact the Office of Disability Services (ODS) at 993-2474. All academic accommodations must be arranged through the ODS. http://ods.gmu.edu

OTHER USEFUL CAMPUS RESOURCES:

WRITING CENTER: A114 Robinson Hall; (703) 993-1200; http://writingcenter.gmu.edu

UNIVERSITY LIBRARIES "Ask a Librarian" http://library.gmu.edu/mudge/B4/1MRefhtml

COUNSELING AND PSYCHOLOGICAL SERVICES (CAPS): (703) 993-2380: http://caps.gmu.edu