

Economics 5403: Public Choice

Fall 2008

Wednesdays, 8:30 – 11:30.

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Course Objectives: This graduate course provides an introduction to analytical methods, approaches and research questions that arise in the study of the political economy of public finance and of public policy generally. Microeconomics and analytical political theory are combined in the search for a more comprehensive vision of the economic and political forces underlying the structure and evolution of the public sector and the consequences of political institutions for the allocation and distribution of resources. Topics covered include selected aspects of public goods and externalities, the free-rider problem and collective action, the operation of collective choice mechanisms such as pure majority rule, the relationship between the institutions of representative democracy and economic welfare, the modelling of political competition, special interest politics, time consistency, intergenerational conflict, and the efficiency of democracy. Some attention is paid to the historical evolution of ideas about these issues.

Requirements: There will be one exam (50%) and a project (50%). Sets of questions will be handed out periodically that review material considered in class. The test will to some extent be based on these questions. The purpose of the project is to help you make the transition from consumers of research to producers of it.

Textbook (a mixture of a text and a reference book): T. Persson and G. Tabellini. Political Economics: Explaining Economic Policy. MIT Press, 2000 is a useful introduction to some of the models we will consider. It will be used in the sections on representative democracy, redistribution and special interest politics. It does not cover all aspects of the course and other sources will be consulted extensively.

Useful supplementary books (*= a book on reserve).

- *Albert Breton. Competitive Governments: An Economic Theory of Politics and Public Finance. Cambridge University Press, 1996. A modern attempt at a Wicksellian approach to public finance.
- Richard Cornes and Todd Sandler. The Theory of Externalities, Public Goods and Club Goods. 2nd ed, Cambridge 1996. (A great summary of the relevant theory).
- *Allan Drazen. Political Economy in Macroeconomics. Princeton University Press, 2000. (A recent textbook with many useful chapters surveying some of the topics we will cover. Emphasizes applications to macroeconomic policy issues).
- * Gene Grossman and Elhanan Helpman. Special Interest Politics, MIT Press 2001. (The latest word on the topic.)
- * Walter Hettich and Stanley Winer. Democratic Choice and Taxation: A Theoretical and Empirical Analysis. Cambridge University Press, 1999. (A study of why tax systems look the way they do).
- Arye Hillman. Public Finance and Public Policy: Responsibilities and Limitations of Government. Cambridge 2003. (The first undergraduate text on public economics that truly integrates economics with the study of collective choice issues.)
- *Melvin Hinich and Michael Munger. Analytical Politics. Cambridge University Press, 1997. (A sophisticated introduction and analysis emphasizing the probabilistic voting approach on which I will rely extensively.
- *John Roemer. Political Competition: Theory and Applications. Harvard, 2001.)
- *Samuel Merrill III and Bernard Grofman. A Unified Theory of Voting: Directional and Proximity Models. Cambridge 1999. (A general treatise on how to model voting behavior and platform choices by political

parties).

*Dennis Mueller, Public Choice III, Cambridge University Press, provides introductions to a broad range of material. 2003 serves as a reference text on many topics.

Dennis Mueller. Constitutional Democracy. Oxford University Press. 1996.

*William Riker. The Art of Political Manipulation. Yale 1986. (Riker calls this the art of heresthetics - something all good politicians know a lot about).

*John Roemer. Political Competition: Theory and Applications. Yale University Press 2000. (A review of literature and a new approach to political competition between parties. Mathematically sophisticated.)

J. Adams, S. Merrill III and B. Grofman. A Unified Theory of Party Competition: A Cross-National Analysis Integrating Spatial and Behavioral Factors. Cambridge 2005.

N. Schofield and I. Sened. Multiparty Democracy: Elections and Legislative Politics. Cambridge, 2006.

*Todd Sandler, Collective Action: Theory and Applications, University of Michigan Press, 1992. (An excellent recent text on the theory of groups from Olson to the present.)

*Todd Sandler, Global Collective Action, Cambridge 2004. (Application on a global scale).

*Kenneth Shepsle and Michael Bonchek. Analyzing Politics: Rationality, Behavior and Institutions, Norton, 1997. (An excellent introduction to analytical political science, especially for economists).

*Stanley Winer and Hirofumi Shibata (eds). (2002) Political Economy of Public Finance: The Role of Political Economy on the Theory and Practice of Public Economics. Edward Elgar. (A nice introduction to the tension between public economics and public choice.)

Course Outline and Reading List: The timetable by week is tentative. Required reading, apart from journal articles, should be on Reserve in the library (marked with a '*') or available on WebCT (marked as '**'). Some material is found on my website: www.carleton.ca/~winers as indicated. *Please let me know right away if anything is missing from the reserve shelves or web sites listed.* Choice of readings may be altered as we go along.

Important notes: While the whole outline is lengthy, I have kept the amount of *required* reading within reasonable bounds. Note also that we will study only a modest subset of the material listed here, especially in the applications sections, as indicated in class.

Week 1

1. An Introduction to The Political Economy of Public Finance: Structure and Application

How should we approach political economy and public finance? Basic issues concerning the direction of contemporary research.

S. Winer and W. Hettich (2006). "Structure and Coherence in the Political Economy of Public Finance". in Don Wittman and Barry Weingast, Oxford Handbook of Political Economy, Oxford University Press. Chapter 25, 442 – 463. At: www.carleton.ca/~winers

Supplementary

S. Winer and W. Hettich (2003). "The Political Economy of Taxation: Positive and Normative Analysis When Collective Choice Matters". In F. Schneider and C. Rowley. The Encyclopedia of Public Choice. Kluwer Academic, 2003, 173-190. Available at: www.carleton.ca/~winers.

Joseph Schumpeter (1950). Capitalism, Socialism and Democracy, Allen and Unwin. Chapter 21, "The Classical Doctrine of Democracy" and chapter 22, "Another Theory of Democracy". (A classic introduction to modern political economy).

Richard Musgrave (1985). "A Brief History of Fiscal Doctrine", Chapter 1 in A. Auerbach and M. Feldstein (eds.), Handbook of Public Economics, vol.1, North-Holland. (A thoughtful survey by someone who lived through much of what he talks about).

Gary Miller (1997). "The Impact of Economics on Political Science. Journal of Economic Literature 35(3), 1173-1204. (A thoughtful review that touches on many of the ideas that the course covers.)

On the Wicksellian Approach to Public Finance and Political Economy:

Knut Wicksell (1896). "A New Principle of Just Taxation (1896)" in R. Musgrave and A. Peacock, Classics in the Theory of Public Finance, MacMillan, 1958, pp. 72-97.

James Buchanan (1976). "Taxation in Fiscal Exchange", Journal of Public Economics 6, 17-29. (Reincarnation of the Wicksellian view).

Weeks 2, 3 and 4

2. The Free Rider Problem and the Evolution of Cooperation

Why people join, or do not join, with others in the pursuit of common goals. The essential free-rider problem in collective action. Introduction to basic non-cooperative game theory, and its use to study the evolution of cooperation.

** (*) Robin Boadway and David Wildasin, Public Economics 2nd edition. Little Brown 1984. Chapter 4 (The Theory of Public Goods).

** (*) D. Mueller, Public Choice III. Chapter 2 ("The reason for collective choice – allocative efficiency")

** (*) T. Sandler, Collective Action. Chapter 2 " (Basic themes...) ". Overlaps with, but emphasizes different issues than Mueller.

Applications (to be selected)

Charles Tiebout (1956). "A Pure Theory of Local Expenditures." Journal of Political Economy 64(5), 416-424.

Mancur Olson and Richard Zeckhauser, "An Economic Theory of Alliances", Review of Economics and Statistics, 43, 1966. (On the structure of defence spending in the NATO and other military alliances, especially applicable to countries like Canada and the U.S.).

Barry Weingast (1997). "The Political Foundations of Democracy and the Rule of Law". American Political Science Review, 91(2), 1997, 245-263. (On the evolution and stability of constraints on the power of government in democratic systems as a problem of collective action. This paper reminds us not to take the existence of the rule of law or democracy for granted).

Supplementary

Mancur Olson. The Logic of Collective Action. Harvard University Press, 1965

Elinor Ostrom, Governing the Commons: The Evolution of Institutions for Collective Action, Cambridge University Press, 1990. (A study of the nature of collective action in the absence of government intervention.)

T. Sandler. Global Collective Action, Cambridge 2004, chapter 4 (on transnational public goods and bads.)

Robert Axelrod, The Evolution of Cooperation, Basic Books 1984. (Extension of the study of prisoner's dilemmas to dynamic or repeat play contexts. See especially chapter 4 on local truces in trench warfare of WW I and the last chapter on golden rules for cooperation).

Luis Medina. A Unified Theory of Collective Action and Social Change. University of Michigan Press, 2007 (the latest treatise on collective action, dealing especially with the possibility that there are multiple equilibria in collective action games.)

Weeks 5 and 6.

4. Majority Rule, and the Interaction of Preferences and Collective Choice Mechanisms in the Determination of Policy Outcomes

The median voter theorem of Black. The instability of pure majority rule and the interaction of voting rules and preferences. Structure-induced equilibrium and the evolution of legislative institutions. Veto Players. Agenda control and other heresthetic manoeuvres.

- **(*) K. Shepsle and M. Bonchek, Analyzing Politics. Chapter 5: Spatial Models of Majority Rule, and Chapter 6: Strategic Behavior.
- **(*) D. Mueller, Public Choice III. Chapter 5. (A more technical introduction. Overlaps somewhat with Shepsle and Bonchek, but worth reading for its technical details and its different perspective).
- ** G. Tsebelis. Veto Players: How Political Institutions Work. Princeton University Press, 2002. Chapter 1 (Individual Veto Players).

Applications (to be selected)

- Barry Weingast and W. Marshall (1988), "The Industrial Organization of Congress; or, Why Legislatures, Like Firms, Are Not Organized as Markets", Journal of Political Economy 96(1), 132-163. (An application of the structure induced equilibrium approach to the organization of Congress, with hints about parliamentary government. Transactions costs are important too).
- Weingast, Barry R., Kenneth A. Shepsle, and Christopher Johnsen (1981). "The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics." Journal of Political Economy 89: 642-664. (On the common pool problem in politics.)
- W. Riker (1986). The Art of Political Manipulation, Yale University Press. Chapter 10 (on "Warren Magnusson and Nerve Gas", and Conclusion.)
- Thomas Romer and Howard Rosenthal (1978). "Political Resource Allocation, Controlled Agendas and the Status Quo," Public Choice 33(4) (Winter): 27-43. (On control by the bureau of the median voter by agenda manipulation).
- David Baron and John Ferejohn (1989). Bargaining in Legislatures. American Political Science Review 83(4), 1181-1206. (Studies how legislative structure and legislator behaviour affects agenda power and legislative outcomes).

Supplementary

- R. Baqir (2002). "Districting and Government Overspending." Journal of Political Economy 110(6), 1318- 1354. (On the common pool problem in all democratic systems.)
- *M. Hinich and M. Munger. Analytical Politics. Chapter 2: The Spatial Model of Downs and Black; and Chapter 3: Two Dimensions - Elusive Equilibrium. (An alternative to Shepsle and Bonchek.)
- M. Laver and K. Shepsle. Making and Breaking Governments: Cabinets and Legislatures in Parliamentary Democracies. Cambridge University Press, 1996. (Application of the structure-induced equilibrium model to coalition politics in parliamentary systems)
- *W. Riker. The Art of Political Manipulation. Yale 1986. (Riker calls this the art of heresthetics - something all good politicians know a lot about).
- G. Tsebelis. Veto Players: How Political Institutions Work. Princeton University Press, 2002.

Weeks 7 and 8

5. Modelling Representative Democracy When the Allocation of Economic Resources Matters

Spatial voting models of political equilibrium. Anthony Downs formalized as spatial, probabilistic voting. The Representation Theorem and the 'invisible hand' in a democracy. Politicians with policy preferences and endogenous candidates. First past the post and proportional electoral systems.

Anthony Downs (1957) "An Economic Theory of Political Action in a Democracy," Journal of Political Economy 135-150.

** (*) D. Mueller. Public Choice III. Chapter 12: Two Party Competition - Probabilistic Voting. (And the invisible hand in politics!).

T. Persson and G. Tabellini, Political Economics, chapter 3 (Electoral Competition) and chapter 8 (Electoral Rules and Electoral Competition).

**(*) Gene Grossman and Elhanan Helpman (2001). Special Interest Politics, MIT Press. Chapter 2, 56-64 (on politicians with preferences and endogenous candidates).

Application

** (*) W. Hettich and S. Winer. "Economic and Political Foundations of Tax Structure," American Economic Review 78(4), 1988, 701-712. (Using a probabilistic voting model to explain why tax systems look the way they do, and to explore implications for tax reform.)

Supplementary: Alternative models of electoral equilibrium

*W. Hettich and S. Winer. Democratic Choice and Taxation. Chapter 2: Models of Political Economy and the Study of Taxation. (This chapter provides an overview and comparison of many of the relevant models addressed in this section of the course).

Peter Coughlin. Probabilistic Voting Theory. Cambridge University Press, 1992.

Dan Usher. "The Significance of the Probabilistic Voting Theorem". Canadian Journal of Economics 27(2), 1994, 433-445.

*M. Hinich and M. Munger. Analytical Politics. Chapter 8: Strategic Voting, Nonseparability and Probabilistic Voting.

Tim Besley and Stephen Coate. "A Model of Representative Democracy". Quarterly Journal of Economics 112(1), 1997, 85-114

John Roemer (2003). "Indeterminacy of the Citizen Candidate". Cowles Discussion Paper No. 1410. March.

Dan Usher (2003). "Testing the Citizen-Candidate". Unpublished. Queens's University.

*John Roemer (2001). Political Competition: Theory and Applications. Harvard U. Press. Chapter 1&8 (on modeling representative democracy when parties are explicit coalitions).

Gilat Levy. "A Model of Political Parties". Journal of Economic Theory 115, 2004, 250-277. (A different model of coalition formation and political equilibrium).

See also the previously referenced books by Adams, Merrill and Grofman (2005), and by Schofield and Sened (2006)

Supplementary: The role of governance from various perspectives

T. Persson and G. Tabellini (2003). The Economic Effects of Constitutions. MIT Press.

Persson, G. Roland and G. Tabellini (2004). "How Do Electoral Rules Shape Party Structures, Government Coalitions and Economic Policies." CESifo Working Paper 1115.

T. Besley and A. Case (2003). Political Institutions and Policy Choices: Evidence from the United States. Journal of Economic Literature 61, 7-73.

M. Palmer. "Toward an Economics of Comparative Political Organization: Examining Ministerial Responsibility." Journal of Law Economics and Organization, 11(1), 1995, 164-188. (Explores how government authority is controlled in parliamentary and congressional systems)

- A. Breton. Competitive Governments. 1996. Chapter 4 (On how budgetary processes in congressional and parliamentary systems evolve to control spending.)
- Peter Moser. The Political Economy of Democratic Institutions. Edward Elgar Publishing, 2000. (Chapter 10 and 11 on independence of the central bank and legislative checks and balances.)
- W. Pommerehne, "The Empirical Relevance of Comparative Institutional Analysis", European Economic Review 34, 1990, 458-469. (Summarizes empirical work from Switzerland and elsewhere on the importance of direct vs. representative democracy.)
- Tsebelis, George (2000). "Veto Players and Institutional Analysis". Governance 13(4), 441-474.

Week 9

6. Contemporary Empirical Models of Political Competition

Some very current research on variation in political competition in democratic states..

- **T. Besley, T. Persson and D. Sturm (2007). "Political Competition, Policy and Growth: Theory and Evidence from the United States". Unpublished, July.
- S. Ferris, S-B Park and S.L. Winer (2008). "Studying the Role of Political Competition in the Evolution of Government Size Over Long Horizons." Public Choice 137, 369-401.
- **S.L. Winer, L. Kenny and B. Grofman (2008). "Explaining Variation in the Degree of Political Competition in a Mature democracy: U.S. Senate Elections, 1922 – 2005". Unpublished.

Weeks 10 and 11

7. Redistribution and Special Interest Politics

A short introduction to a huge literature. We will continue our study of electoral politics where some aspects of redistribution were considered. The role of skewness in the income distribution in a median voter framework. Is it swing votes or core supporters that matter? Lobbying.

- Meltzer, Allan H. and Scott F. Richard (1981). "A Rational Theory of the Size of Government," Journal of Political Economy, 89 (October): 914-27.
- A. Dixit and J. Londregan (1996). "The Determinates of Success of Special Interests in Redistributive Politics". The Journal of Politics 58, 1132-55.
- **(*) Gene Grossman and Elhanan Helpman. Special Interest Politics, MIT Press 2001. Chapters 7 and 8 (on their model of lobbying.)
- T. Persson and G. Tabellini. Political Economics. Chapter 7, section 7.3 (171-175) and problem 3, p. 197. (On the role of special interests and lobbying. Based on Grossman/Helpman).

Supplementary:

- *A. Drazen. Political Economy in Macroeconomics, Princeton 2000. (Chapter 8 provides a nice survey.)
- Meltzer, Allan H. and Scott F. Richard (1983). "Tests of a Rational Theory of the Size of Government" Public Choice, 41(3): 403-18.
- Gary Miller and Norman Schofield (2003). "Activists and Partisan Realignment in the United States". American Political Science Review 97(2), 2003, 260.
- Stephen Asolabehere, John Figueiredo, James Snyder. "Why is There so Little Money in U.S. Politics". Journal of Economic Perspectives 17(1), 2003, 105-130.
- A. Denzau and M. Munger, "Legislators and Interest Groups: How Unorganized Voters Get Represented", American Political Science Review 80(1), March 1986, 89-106.
- Robert Feenstra. Advanced International Trade. Princeton 2004. Chapter 9 (on the political economy of trade policy).

Week 12 (if we don't run out of time)

10. Is Democracy Efficient?

We turn briefly to the normative side of political economy, which we have already considered in the context of our study of electoral equilibrium. Interest groups: good or bad for economic efficiency? Is there an invisible hand in a competitive political system? Under what circumstances? What can go wrong? What is a failure in a policy process?. How do we think about these matters?.

(Regarding sources of inefficiency)

**Timothy Besley. Principled Agents? The Political Economy of Good Government. Oxford University Press, 2006. Chapter 2: The anatomy of government failure. (see also Olson, Acemoglu and Stiglitz below)

(Regarding sources of efficiency)

Don Wittman. "Why Democracies Produce Efficient Results", Journal of Political Economy 97(6), December 1989, 1395-1424. A rosy picture of democracy. (See also Becker below)

Supplementary:

A. Glazer and L. Rothenberg. Why Government Succeeds and Why it Fails. Harvard, 2001. (A nice overview of the issues.)

Mancur Olson. "The Political Economy of Comparative Growth Rates," in D. Mueller, The Political Economy of Growth, Yale University Press, 1983. (The harmful effect of special interest groups)

Joseph Stiglitz, "The Private Uses of Public Interests: Incentives and Institutions". Journal of Economic Perspectives 12(2), 1988, 3-22. (A survey of things that can go wrong).

Darin Acemoglu (2003). "Why Not a Political Coase Theorem?" Journal of Comparative Economics 31(4), 650-652.

G. Becker. "Public Policies, Pressure Groups and Deadweight Costs". Journal of Public Economics 28, 1985, 329-347. [OR * Gary Becker. "Political Competition Among Interest Groups", in J. Shogren (ed). The Political Economy of Regulation. Kluwer 1989, 13-27.]

Toke Aidt (2003), "Redistribution and Deadweight Costs: The Role of Political Competition." European Journal of Political Economy 19, 205-226. (A reconsideration of Becker's approach.)

Mancur Olson. The Rise and Decline of Nations, Yale University Press, 1982.

Don Wittman. The Myth of Democratic Failure: Why Political Institutions are Efficient. University of Chicago Press, 1995.

Michael Munger. "Demobilized and Demoralized: Negative Ads and Loosening Bonds". In Albert Breton et al. Rational Foundations of Democratic Politics. Cambridge 2003.

Roger Congleton. "Economic and Cultural Prerequisites for Democracy". In Albert Breton et al. Rational Foundations of Democratic Politics. Cambridge 2003.

The following topics are included for interests sake – we will not have time to cover them comprehensively.

Commitment and Contracting over Time in the Presence of Collective Choice

Dynamic issues, mostly stemming from commitment problems that arise over time. The readings here just scratch surface.

Peter Howitt. "Intergenerational Redistribution". Chapter 13 in () A. Asimakopoulous Economic Theory, Welfare and the State. McGill Queen's Press, 1990, 218-237. (An elegant yet simple model of conflict among the generations).

D. Rodrik and R. Zeckhauser. "The Dilemma of Government Responsiveness". Journal of Policy Analysis and Management 7(4), 1988, 601-620. (On the commitment problem in democracies, or why political discretion can be a bad thing in dealing with flood control and similar issues).

* Allan Drazen. Political Economy in Macroeconomics. Princeton University Press, 2000. (An excellent survey of work on commitment problems in macroeconomics)

T. Persson and G. Tabellini. Political Economics. Chapters 11 and 12 (on dynamic problems).

Dictatorship

Just a taste of recent work on this fascinating topic.

*R. Wintrobe (2005). The Political Economy of Dictatorship. Cambridge, 1998. See also his "Dictatorship: Analytical Approaches". Unpublished, University of Western Ontario

M. Islam and S. L. Winer (2004). "Tinpots, Totalitarians (and Democracy): An Empirical Investigation of the Effects of Economic Growth on Civil Liberties and Political Rights". Public Choice 118, 289-323.

D. Acemoglu and J. Robinson. Economic Origins of Dictatorship and Democracy. Cambridge 2006.

B. B. de Mequita, A. Smith, R. Siverson and J. Morrow. The Logic of Political Survival. MIT Press 2005.

Collective Choice and the Theory of Policy

Alternative views about whether and how collective choice should be incorporated into the study of public policy, and in the formulation of policy advice.

Robin Boadway, "The Role of Public choice Consideration in Public Economics" in S. L. Winer and H. Shibata (eds) Political Economy of Public Finance, Edward Elgar Publishing, 2002.

versus

Walter Hettich, "Better Than What? :Policy Analysis and the Standard of Reference in a Comprehensive Framework with Collective Choice"." in Winer and Shibata (eds) Political Economy of Public Finance, Edward Elgar Publishing 2002.

Applications (the debate in the context of tax policy)

Randall. Holcombe. "Tax Policy From a Public Choice Perspective". National Tax Journal 51(2), 1998,359-371.

versus

Stanley Winer and Walter Hettich "What Is Missed If We Leave Collective Choice Out of the Analysis of Taxation?" National Tax Journal 51(2), 1998, 373-389. (stresses the beneficial role of political competition).

versus

J. Poterba. "Public Finance and Public Choice". National Tax Journal 51(2), 391-396. (A different defence of the traditional approach to policy making).

Supplementary:

Timothy Besley and Stephen Coate. "On the Public Choice Critique of Welfare Economics". Public Choice 114, 2003, 253-273.

W. Hettich and S. Winer, "Economic Efficiency, Political Institutions and Policy Analysis", Kyklos 46(1), 1993, 3-26. (An overview of alternative theoretical approaches we have considered and their implications for the art of policy advising).

W. Hettich and S. Winer (1995). "Decision Externalities, Economic Efficiency and Institutional Response". Canadian Public Policy 21(3), 344-361.

R. Zerbo and H. McCurdy (1999). "The Failure of Market Failure". Journal of Policy Analysis and Management 18(4), 558-578.

Jack Wiseman, "The Way Ahead: A New Political Economy" in Cost and Choice, chapter 14. Edward Elgar, 1989. (The Wicksellian approach by a seasoned policy advisor).

Econ 5403, Fall 2008.
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SHORT RESEARCH PROJECT

Due date: to be arranged

The research paper is designed to help you to go beyond being merely a consumer of research done by others. It allows you to start from the work of others, but then to propose your own research project that goes beyond what you have read. Combining this paper with an assignment for another course is fine provided you discuss this with me first.

The research paper consists of two related parts.

Part I (approximately 6-8 pages double-spaced): This part represents a review of one or two research articles. One or both of the articles may be empirical in nature (review statistical or case study evidence concerning a main hypothesis), or, if you wish, you may deal with theory only. Articles chosen must deal with the same general topic or issue.

You are responsible for choosing the article(s). One of them may be a research article from the readings assigned for the course. The main topic treated in the articles must relate to some aspect of the course material. You may wish to seek my advice in choosing a specific topic and in locating relevant articles. I will suggest topics as we proceed through the term.

Your discussion in Part I should touch on the following:

- main thesis or hypothesis in each article
- analytic techniques used in each article
- type of data used and sources of the data
- main conclusions reached in each article
- how the articles complement and/or contradict each other, and why they do so

It is suggested that you use these or similar headings to organize the first part of your paper.

Copies of articles that are not part of the readings for the course must be attached to the paper when handing it in.

Part II (approximately 6-8 pages, double-spaced): In this part, you develop a research proposal on one aspect of the topic discussed in the two papers reviewed in Part I. You may start from the research design in one of the papers and amend it to make it your own. (This can be done, for example, by changing or extending the theoretical model in some manner; by changing the list of explanatory variables in an empirical analysis, or by changing the time period for which the statistical analysis is carried out.) You must explain why you are proposing these changes in the research design. Alternatively, you may propose your own research design that takes a different approach from the designs used in the two articles. Again, you must justify your design. Your proposal should have the following elements:

(1) An hypothesis or clearly formulated economic question that can be investigated with either a theoretical model or empirical data, or both.

(2) If you plan to do *theory*, a discussion of the model that you will use to examine your hypothesis or research question. This discussion should not be a general introduction to methodology. What is required is a discussion of the properties of the model in relation to the research question of interest, including:

- what general features is it necessary for the model to have in order to deal with this question;

- the critical aspects of the particular model you are proposing that will play key roles in determining the nature of conclusions. (You may wish to build on ideas from other papers here.);
- how the treatment of the points above differ from that in the papers reviewed earlier;
- justification as to why this alternative model structure is well suited to answer your research question, including a discussion of why there is likely to be some interesting 'distance' between your assumptions and your conclusions;
- a time estimate for completing the project (assuming that would devote 15 hours a week to it);
- a brief discussion of how your research project will add to economic knowledge

(2') If you plan to do *empirical work*, you should discuss:

- the essential or critical aspects of the statistical model that will play key roles in determining the nature of conclusions about the question of interest;
- how your treatment in the points above differs from that in the papers reviewed earlier;
- justification as to why this alternative model structure is well suited to answer your research question;
- the data that will have to be collected for the research project and of the likely sources where they can be found;
- an example of such data (such as a relevant statistical table) and a discussion of how the numbers in the data set relate to the examination of your hypothesis or research question;
- a time estimate for completing the project (assuming that would devote 15 hours a week to it);
- a brief discussion of how your research project will add to knowledge.

It is suggested that you use above headings (or similar ones) in organizing your proposal that correspond to these points.

In designing your research proposal, it is important to be realistic. This means that you must *be very clear about the question that you are investigating, the nature of the model used for theoretical work, and the data required for empirical work*. It is generally better to choose a narrow topic than a broad one.

Bibliography: The paper must have a separate page with proper bibliographic citations of the two articles reviewed and any other articles cited. The bibliography should also include proper entries for the source of the data example in Part II and for the data sources that you plan to use in the proposed research.

Team Research: You may combine with another member of the class and turn in a joint paper. If you choose to do this, both authors will receive the same grade. Groups of more than two authors are not allowed.