FIELD EXAM: Political Economy – 2024

Name: _____

You must always show your thinking to get full credit.
You have two hours and thirty minutes to complete <u>4 out of the 5</u> questions.

Question 1
Citizen-candidate model (Persson and Tabellini)
Consider a society with a continuum of citizens with income y uniformly distributed between 0 and 2. Each citizen i has preferences over private consumption c and a public good g:

$$u_i = c_i^{1/2} + g^{1/2}$$

The public good g is financed by a proportional income tax τ and individual consume their disposable income $c_i = (1- \tau)y_i$. The government budget constraint is:

$$\int_i \tau y_i = g$$

Assume voters vote sincerely. Consider the following timing: 1) Any citizen may become a political candidate at a cost $\varepsilon > 0$. 2) An election is held and the candidate with the majority of the votes wins the election (a tie is resolved by coin toss). 3) The winning candidate selects the tax rate; if there are no candidates, then a default tax rate τ_0 is implemented.

a) What policy would a winning candidate with income y_i implement? (5 pts.)

b) Suppose that $\varepsilon = 2^{1/2} - (3/4)^{1/2} - (1/4)^{1/2}$. In what region must the status quo policy, τ_0, lie in order for the equilibrium with only the citizen with median income as candidate to exist? (5 pts.)

c)   Are there other one-candidate equilibria? (5 pts.)

Question 2
Lobbying
Please comment this graph reporting the career profile of Mark Busching, the former Chief of Staff of Congressman Robert Aderholt, as reported by the Center for Responsive Politics. Be explicit about what do we learn about the revolving door and lobbying from this simple example. (20 pts.)
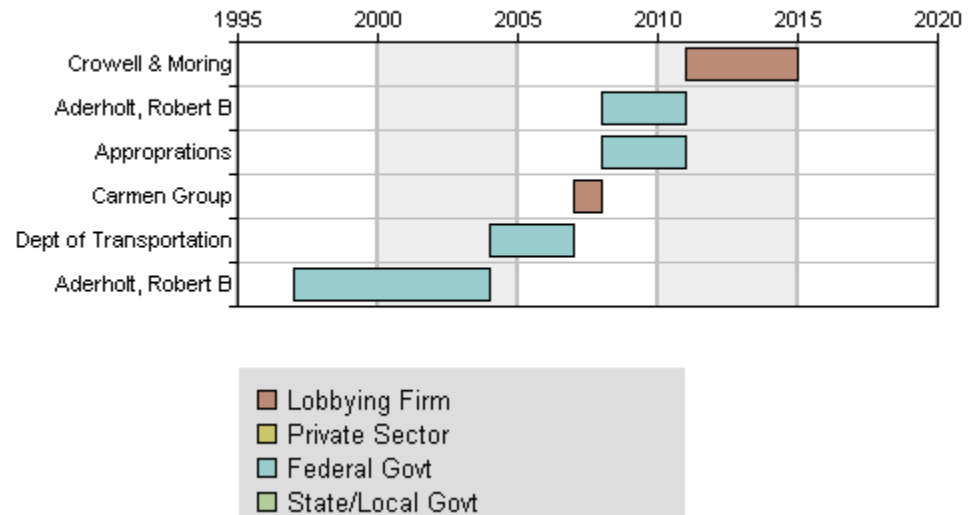
Question 3
Presidential-congressional system with veto power (Persson and Tabellini)

Assume the following model of policy choice. There are three groups of voters $J=1,2,3$ of equal size 1. The groups perfectly overlap with electoral districts $l=1,2,3$. A president P is the head of the executive.

Voters in group J get utility from consumption c^J and a general public good g

$$U^J = c^J + H(g),$$

where H has standard properties ($H'>0, H''<0$). Let us assume that voters consume all disposable income so:

$$U^J = y - \tau + f^J + H(g),$$

where y is income, τ indicates taxes, and f^J denotes a nonnegative lump sum transfer to members of group J.

Politicians (both the three legislators and the president) can appropriate private rents and must choose how these should be allocated. This is done by a legislative decision. They also enjoy rents from office R. R should be assumed large in what follows. The utility of legislator l is:

$$\gamma r^l + R$$

The government budget constraint is:

$$g = 3\tau - r - f$$

where $f = \Sigma_J f^J$ and $r = r^P + \Sigma_l r^l$. Policy items must be non-negative and the timing of the game follows this sequential structure:

1. Nature selects at random among the legislators an agenda setter for g, a^g, (the "expenditure committee") and an agenda setter for τ, a^τ, (say, the "ways and means committee").
2. Voters set their reelection voting strategies p^l contingent on their utility level and depending on the status of their legislator.
3. The agenda setter a^τ proposes a tax rate τ.
4. The three legislators <u>vote on τ</u>. If the proposal fails, then default tax rate τ^0, >0.
5. The agenda setter a^g proposes a budget $q = [\{f^J\}, g, \{r^l\}]$ conditional on ex ante electoral strategy p^l and τ.
6. The three legislators <u>vote on the proposed policy vector q</u>. If a majority supports the proposal, q is implemented, otherwise *a default policy $q^0 = [\{f^J = \tau - r^0\}, g=0, \{r^0>0\}]$* is implemented.
7. The <u>president decides whether to veto the proposal or not</u>. If he vetoes, the default policy is implemented.
8. Legislators face an identical challenger and elections are held in their districts. The president is held to national elections

a. Construct an equilibrium in which public goods are provided at level $H'(g^*)=1$? (5 pts.)

b. Show that there are infinitely many equilibria with $H'(g^*)=1$ and positive transfers for district a^g. (5 pts.)

c. Compare the results of the model with a presidential veto and a model without the presidential veto. Does the addition of the presidential veto change the equilibria? [Hint: Notice that at least two legislators/districts are needed to pass the reform in Congress and this constitutes also a majority in the national elections] (5 pts.)

Question 4
Constitutional regime typologies
Ranking different regime types according to the degree of concentration of power of the executive versus the legislative branch is not straightforward. Can you make a case for the following ranking from low concentration to high concentration of power as presented by Colomer in his chapter of the Oxford Handbook of Political Institutions?

1. Parliamentary-proportional (e.g. Germany, the Netherlands)
2. Checks and balances (e.g. USA, Indonesia)
3. Semi-presidential (e.g. France, Poland)
4. Presidential (e.g. Argentina, Mexico)
5. Parliamentary-majority (e.g. UK, Canada)

5 is the highest concentration. Note that at point 2 the system is presidential-majority with the possibility of divided government and in 4 we should consider presidential-proportional representation.
Discuss in particular how the electoral rule may interact with the form of government and if you do not agree with this ranking present and discuss your own. (10 pts.)

Question 5
Democracy and Autocracy
The Acemoglu and Robinson's (2001, 2006) model of democratization focuses on the role of conflict between the elite and the poor.

a. The model rationalizes democratizations as a commitment device for the rich elite through which it is possible to avoid revolutions. Explain this last statement and if possible provide historical examples. (5 pts.)

b. The Acemoglu-Robinson model has relatively less bite on a particular subset of democratization episodes where the threat of "storming the Bastille" seemed mute, like the extension of the suffrage to women in the West or the enfranchisement of black voters in the US during the 1960's. What do you think would be a more fitting model of democratization? In particular, do you see as relevant the assumption of the elite as a monolithic entity instead of a conglomerate of different groups who can form different types of alliances? (5 pts.)