

Revision of Lent Term

Andrew Eggers

LSE

9 May 2014

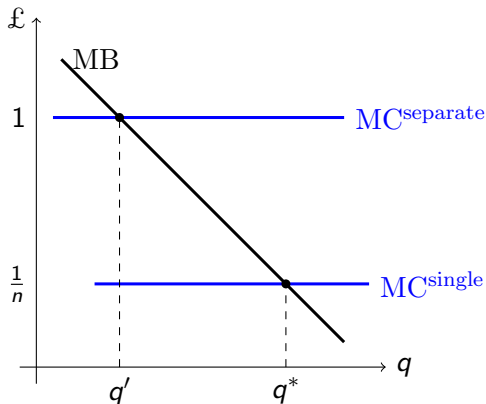
Plan

- ▶ Overview of main themes from the LT
- ▶ Some extra example essay questions, suggestions for responding
- ▶ Suggestions for studying for short answer questions

Lectures

- ▶ **Week 1:** Government Spending as a Common Pool Problem
- ▶ **Week 2:** Lobbying/Advocacy as a Collective Action Problem
- ▶ **Week 3:** Regulation of Influence in Politics
- ▶ **Week 4:** Voter Competence and Democratic Policymaking
- ▶ **Week 6:** Regime Types and Democratization
- ▶ **Week 7:** Coordination: Constitutions and Revolutions
- ▶ **Week 8:** Conflict and commitment
- ▶ **Week 9:** Signaling

Week 11: Common pool problem



	Payment rule: Separate checks	Single check
Marginal cost:	1	$1/n$
(Privately) optimal order:	q'	q^*

Week 11: Common pool problem (2)

Key points:

- ▶ Some of the same pathologies that justify government intervention can be found in any attempt at government intervention.
- ▶ Government budgets can be “over-grazed” (tragedy of the commons), but it depends a lot on how decisions are made:
 - ▶ do “districts” agree on a spending rule, does each decide on its own spending, some combination of the two?
 - ▶ are “districts” responsible for funding their own projects, or do they use a common fiscal pool?
- ▶ We saw some empirical evidence of common pool problems and the value of centralization to address it.

Week 12: Collective action & lobbying

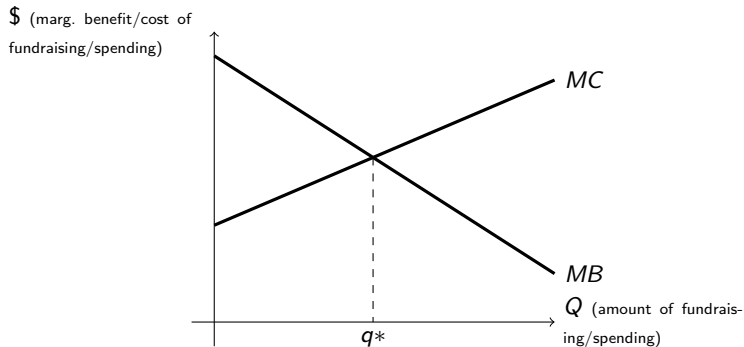
- ▶ **Collective action as a problem:** because most policies are public goods (non-rival, non-excludable) for their beneficiaries (i.e. collective goods), lobbying/advocacy will tend to be under-provided
- ▶ **Group size paradox:** voluntary lobbying/advocacy efforts and organization of special interests will be more successful in relatively small groups
- ▶ **Policy bias from collective action problems:** because of above, the extent of lobbying/advocacy may not be correlated with deservingness \implies regardless of how lobbying/advocacy affects outcomes (providing information, bribing, influencing elections, etc.) there is a case for regulating these activities
- ▶ **Policy responses:** biases may be addressed by structuring policymaking (i.e. corporatism, neo-pluralism), improving education, regulating influence.

Week 13: Regulating political influence

Key ideas:

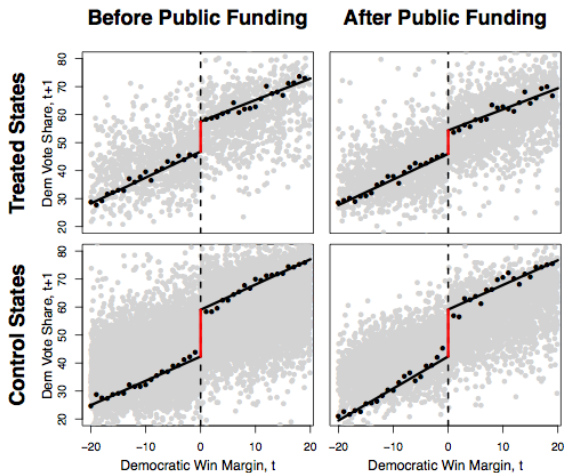
- ▶ Lobbying can be both (a) honest information provision and (b) effective at influencing policy
- ▶ Political finance (and regulations) can be analyzed as an optimization problem
- ▶ Many ambiguities: e.g. does restricting fundraising make parties more responsive to citizens?
- ▶ Some evidence that public funding levels the playing field, but may make politicians/parties less centrist.

Week 13: Regulating political influence (2)



- ▶ MC is marginal cost of fundraising to politician: effort, \$ required to raise unit of money
- ▶ MB is marginal benefit of spending to politician: change in probability of victory \times value of victory for each unit of money spent

Week 13: Regulating political influence (3)

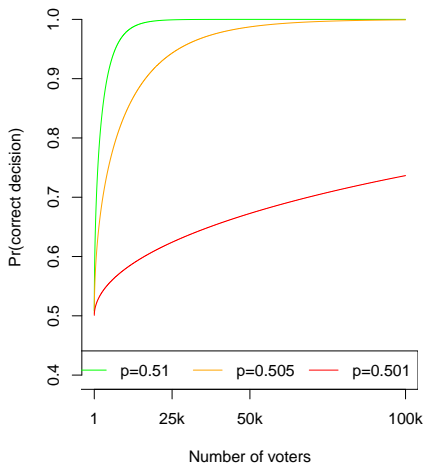
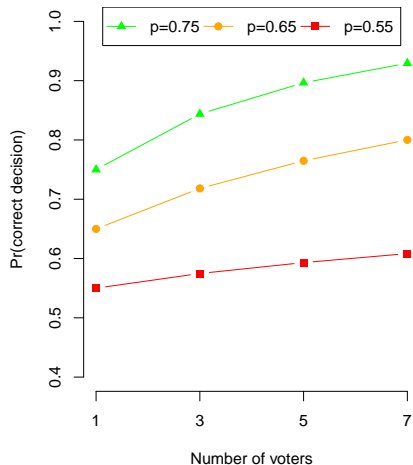


Week 14: Voter competence

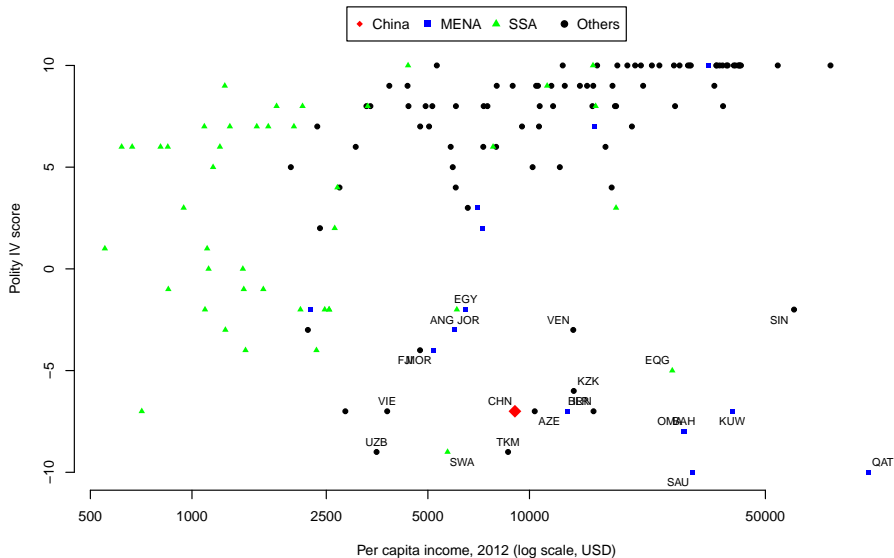
Key points:

- ▶ Citizens' limitations imply a role for policy (“nudges”), but also cast doubt on the effectiveness of democracy in providing incentives for good policy
- ▶ Growing evidence at individual and aggregate level of voters' limitations: myopic, arbitrary, biased, ignorant
- ▶ Retrospective voting may produce surprisingly good incentives – aggregation of (independent) assessments that are weakly correlated with effort/quality of leadership could be “enough”
- ▶ There is also evidence of (aggregate) voter competence

Week 14: Voter competence (2)



Week 16: Regime types and democratization



Week 16: Regime types and democratization

Key ideas:

- ▶ Defining, measuring democracy is challenging (but most definitions focus on the possibility of removing leaders through elections)
- ▶ Democracy has experienced a long-term and mostly steady rise
- ▶ Remaining variation has several explanations:
 - ▶ **economic growth** (modernization thesis)
 - ▶ **inequality** (greater inequality suggests more redistribution in democracy, which makes democracy less stable, i.e. it makes coups more tempting)
 - ▶ **culture** (observed correlation between “values” and form of government; also between values and changes in form of government: perhaps a taste for democracy is part of a larger cultural package)
 - ▶ **resources** (resource wealth gives dictators the ability and motive to insulate selves from pressures for democracy; resource wealth does not produce educated middle class)

Week 17: Coordination: constitutions and revolutions

Key points:

- ▶ Distinction between a *coordination game* and prisoner's dilemma: players have no dominant strategy; their action depends on how they expect others to act
- ▶ Application to “policing the state” in Weingast (1997) model
 - ▶ whether or not the sovereign transgresses depends on whether the each group of citizens expects the others to resist a transgression
 - ▶ importance of “coordination devices” (e.g. constitutions, leaders)
- ▶ Application to revolutions (bandwagon models):
 - ▶ small changes in preferences can produce large changes in group behavior
 - ▶ “predictably unpredictable” (Kuran)

Week 18: Conflict and commitment

A player has a commitment problem when he/she would like to make a **non-credible threat or promise** (i.e. an action that would not pass backwards induction, i.e. is not part of an SPNE).

Some actions can be interpreted as commitment devices: they make a threat or promise credible (wedding).

The inability of states to commit to future actions is one reason costly conflicts can happen.

Week 18: Conflict and commitment

War as a puzzle

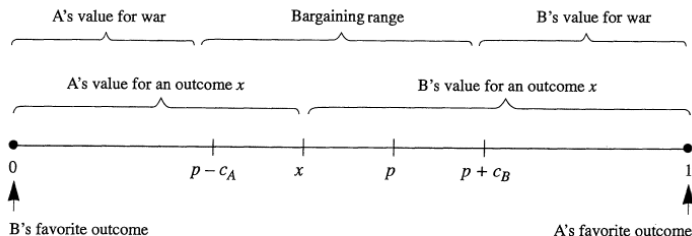


FIGURE 1. *The bargaining range*

From Fearon (1995), Frieden et al (2010)

Role of commitment?

- ▶ Preventive war to affect future distribution of resource, in event of rising power (even though a contract would be preferred)
- ▶ Pre-emptive war because of first-strike advantages (even though a contract would be preferred)

Week 19: Signaling



Week 19: Signaling (2)

Important point (missed in some applications presentations): Recall framework from lecture:

Sender	Receiver	Hidden info	Signaling device	If signal is successful, receiver thinks ...
Antelope	Lion	Antelope's speed, fitness	Jumping	"Only a very strong and fast gazelle can (afford to) do that; I won't bother chasing him."

A signal

- ▶ is an action that conveys information about type, because ...
- ▶ ... some types can't send it (too costly)

Social dilemmas

Social dilemma: Collective interests conflict with private interests; situation with a Pareto-dominated equilibrium.

We looked at four types of social dilemmas:

- ▶ **common pool:** legislators demand large amounts of local spending in their constituencies, even when all would be better off with a smaller budget (week 11)
- ▶ **collective action:** members of a group insufficiently contribute to joint lobbying/activism efforts, even when all would be better off if everyone contributed more (week 12)
- ▶ **coordination:** citizens fail to challenge the sovereign, even when all would be better off if everyone challenged (week 17)
- ▶ **commitment:** war happens even when a bargained solution would be preferable; state steals from citizens even when state and citizens would be better off if it didn't have that ability (week 18)

Review other examples, think of your own.

Why social dilemmas?

- ▶ Social dilemmas resemble a variety of real political and social problems
- ▶ They are interesting games (not: “Y happens because that’s what the players want” or “Y happens because that’s what the powerful player wants”)
- ▶ They avoid many intractable philosophical dilemmas
- ▶ They suggest potentially implementable solutions to those problems

See discussion in week 1.

Why GV487?

- ▶ **Become an able skeptic:** general, confident statements about politics and policy are often wrong
- ▶ **Organize your thinking:** smart people can break down a problem into parts; use different types of analysis (theory & data) to arrive at conclusions from imperfect evidence
- ▶ **See things at a more fundamental level:** good analysts see *classes of problems*, use this to address problems

In preparing:

- ▶ Read and understand key readings
- ▶ Understand everything in the lectures; beyond that, focus on what interests you
- ▶ Look for connections between topics
- ▶ Write your own essay questions (i.e. if you were writing the exam what questions would you write? And feel free to send them to me afterward!)

In responding:

- ▶ Make a brief outline and state the structure at the beginning
- ▶ Have a (balanced) argument and state it at the beginning
- ▶ Be critical
- ▶ Say something interesting

Week 11 & 12

Consider a legislature that spends a shared tax base on local projects.

- ▶ Why might the level of spending be excessive if each legislator chooses how much will be spent in his own constituency?
- ▶ What are some institutional reforms that might address this problem?
- ▶ Identify some reasons why the level of spending might be *less* than the optimal amount.

Week 11 & 12 (2)

In introductory economics courses, non-excludability of some goods is often given as a justification for public policies in which the government intervenes in the economy. In what ways could non-excludability be thought of as a problem in the formation of public policy itself?

Week 12 & 17

According to Olson, why are large groups often less effective than small ones in obtaining policies that would help their members? How does Olson explain the fact that some large groups do organize? What does Kuran add to this explanation?

Week 13

Suppose you observed an increase in political spending in a country from one election. What are some possible factors that could explain this?

Week 14

“The fact that voters are influenced by irrelevant events seriously calls into question the value of elections as devices for producing good policy.”

Discuss.

Week 17

- ▶ Explain in non-technical terms the role of coordination in Weingast (1997)'s model of the rule of law.
- ▶ Weingast's model purports to explain how constitutions could help sustain "democratic stability". Could the same model be used to explain how holy texts could help sustain autocratic stability in a theocracy? Explain.
- ▶ In Weingast's model, two groups of citizens coordinate to prevent the state from abridging their rights. Could the players in the model be relabeled such that two groups of citizens coordinate to prevent a third group from asserting their rights? Explain.

Week 18

Explain how war can result from information asymmetries.

Week 19

Gordon and Hafer argue that political spending offers a way for firms to signal their resolve and thus discourage the government from enforcing regulations. Explain this logic and comment on the possible implications for regulating the role of money in politics.

Practice problems

- ▶ Problem sets
- ▶ Past exams: past three years of exams, with solutions, now on Moodle
- ▶ Practice problems in appropriate chapters of Shepsle
- ▶ Osborne *An Introduction to Game Theory* (13 copies in library) chapters 2, 3, 5, 6, 7; some solutions available on Moodle (note: some of these are above the level of the course)

General suggestions

- ▶ Write something to get partial credit
- ▶ Provide a clear diagram (e.g. normal form or extensive form of game, with correct payoffs) when possible
- ▶ Be solid on key game theory concepts: Nash equilibrium, subgame perfection, backward induction
- ▶ When asked to find the equilibrium strategies, remember that (once you have the action space properly identified) you could in principle try *everything*.
 - ▶ To get full credit, you need a system for eliminating possibilities. e.g. “A would never accept less than x ; therefore ...”
 - ▶ To get some credit, you could mention some strategies that could not be part of an equilibrium.
- ▶ Try to learn something useful to you

Thank you!