TI 0 114
The Political Economy of Trade and Competition Policy

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For a .pdf file of this syllabus click here

This course provides an advanced overview of contemporary approaches to the analysis of political economy. Emphasis is placed on trade policy and competition policies. Specifically, we will focus on the development of a variety of micro-analytic models of the interaction between economics and politics. We begin with a derivation of citizen preferences over policies based on economic attributes in a general equilibrium context. With political preferences in hand, we examine a number of alternative “institutional” environments: single-issue referendum; single-issue lobbying; electoral competition; and agency models.

Evaluation: Your performance in this course will be evaluated on the basis of 2 problem sets (worth 100 points) and 1 takehome examination (worth points 100 points). To receive an A, you must earn at least 90 percent of the points available. To pass the course you must earn at least 60 percent of the points available. Grades between these limits will be determined on the basis of your performance relative to that of the class as a whole.

Readings: The core readings for the course will be drawn from classic and current research papers. Where possible, I will assign papers that are available online.

The attached syllabus contains a large number of references. We will only read a fraction of these (those marked by stars—“★”). However, a person contemplating research in political economy would be wise to read more widely.
Some helpful surveys on the Political Economy of Trade:


Some recent advanced texts in political economy:


Prerequisites: It is assumed that you have completed graduate level microeconomic theory. This, and the mathematical tools used in microeconomic theory, will be used in the readings, the lectures, the exercises, and the examinations. We will be reading a number of papers applying standard econometric tools, and it is assumed that you have sufficient knowledge of these tools to read such material.

Homework. The syllabus that follows this course description lists the reading that you are expected to have done for the lecture on the listed date. Several problem sets will be distributed in class. Homework is due on or before the first class in which that material is discussed. Late homework will not be accepted, and will receive a score of 0. The percent of total available homework credit will be taken as your homework score. For example, if you answer 90% of the homework questions correctly, your homework score is 90.

Short Syllabus

Topic I: Deriving Policy Preferences in General Equilibrium
Topic II: Referendum Models
Topic III: Organizing for Political Action
Topic IV: Chicago School Theory and Empirics
Topic V: Lobbying Models
Topic VI: Contributions, Elections and Trade Policy
Topic VII: Institutions and Equilibrium Outcomes
Topic VIII: Domestic Political Economy of Integration
Topic IX: Political Economy of Immigration Policy
Topic X: Political Economy of Policy Reform
Topic XI: Industry-Level Policy–Antidumping
Topic XII: Industry-Level Policy–Competition Policy
TI 0 114
Syllabus/Reading List
30 May - 4 July 2002

Topic I. Deriving Policy Preferences in GE

- **Theory: The Stolper-Samuelson Theorem and Generalizations**

  - Nelson notes: Stolper-Samuelson theorem [Generalizations optional]


  - Peter Lloyd (2000). “Generalizing the Stolper-Samuelson Theorem:

**Theory: Deriving Preferences**

★ Nelson notes: Deriving trade policy preferences


**Application/Empirics, 1: Revealed Preferences–The Magee Test**


**Application/Empirics, 2: Case Studies, Firms**


Applications/Empirics, 3: Case studies, labor


**Applications/Empirics, 4: Public Opinion Poll Data**


pp. 157-206.


• Applications/Empirics, 5: Direct Evidence on Factor Mobility


**Topic II. Referendum Models**

- **Theory: The Basic Referendum Model**


- **Theory: Dimensionality, 1–Spatial Models**


Carol McAusland (2003). “Voting for Pollution Policy: The


**Theory: Dimensionality, 2–Citizen Candidate Models**


- **Besley, Timothy and Stephen Coate (1997).** “Sources of Inefficiency in a Representative Democracy: A Dynamic Analysis”. *American Economic Review*; V.88-#1, pp. 139-156.


- **De Sinopoli, Francesco (2003).** “A Note on Forward Induction in a Model of Representative Democracy”. *Games and Economic Behavior*; V.46-#1, pp. 41-54.


■ Persson, Torsten and Guido Tabellini (1994). “Representative democracy and capital taxation”. *Journal of Public Economics*; V.55-
# Application/Empirics, 1: National Voting and Trade Policy


**Applications/Empirics, 3A: Time Series Analysis–Macro Analysis**


**Applications/Empirics, 3B: Time Series Analysis–Tariff Endogeneity**


Applications/Empirics, 4: Historical Analyses of Equilibrium Policy


Ronald Rogowski (1987). “Political Cleavages and Changing Exposure to Trade”. American Political Science Review; V.81-4,


- Applications/Empirics, 5: CGE Analysis


**Topic III. Organizing for Political Action**

- **Theory: Internal Accounts of Asymmetric Organization**


**Application/Empirics**


**Topic IV. Chicago School Theory and Empirics**

- **Theory: Regulation Theoretic Models (Active State/‘Passive’ Groups)**


#5, pp. 1180-1187.


**Application/Empirics: Ad Hoc Chicago Empirics**


**Topic V. Lobbying Models**

- **Theory: Active Lobbies, Passive State**


Robert Feenstra and Jagdish Bhagwati (1982). “Tariff Seeking and


• **Theory, 2: Active Lobbies/Active State–Menu Auction Models**


Economic Review; V.42-#7, pp. 1295-1316.


**Application/Empirics**


- Marcel Fafchamps, Alain de Janvry, and Elisabeth Sadoulet (1999). “Social Heterogeneity and Wasteful Lobbying”. *Public Choice*; V.98-

**Topic VI. Contributions, Elections and Trade Policy**

- **Partisan Competition with Contributions: Magee/Brock/Young**

- **Theory: Partisan Competition with Probabilistic Voting**


**Topic VII. Institutions and Equilibrium Outcomes**

- **Theory: Institutions, Organization and Outcomes**


- **Empirics/Applications, 1: Fiscal Institutions–The Income Tax**


**Empirics/Applications, 2: Legislative Institutions and the RTAA**


Applications/Empirics, 3: Parties, Partisan Change and Trade Policy


**Applications/Empirics, 4: Divided Government**


**Topic VIII. Domestic Political Economy of Integration**

- **Free Trade Areas and Customs Unions**


**Effect on Multilateral Liberalization (optional topic)**


**Empirics, 1: Macro Perspectives**

S. Bilal (1998). “Political Economy Considerations in the Supply of Trade Protection in Regional Integration Agreements”. *Journal of*
Common Market Studies; V.36-#1, pp. 1-31.


- **Empirics, 2: Legislative Voting on NAFTA**


NAFTA”. *World Economy*; V.19-#1, pp. 1-12.


Analysis of the U.S. Senate Vote on NAFTA and GATT”.
*International Advances in Economic Research;* V.4-#2, pp. 105-14.


**Topic IX. Political Economy of Immigration Policy**

- **Simple Models**


**Fiscal Effects**


**Empirics 1: Preferences**


**Empirics 2: The Prop. 187 Referendum**


**Empirics 3: Enforcement**


**Topic X. Political Economy of Policy Reform**

**Theory**


**Application/Empirics**


Topic XI. Industry-Level Policy: Anti-Dumping Policy

- **Theory: Some Economics of Administered Protection**


Economic Behavior and Organization; V.23-#, pp. 69-81.


**Theory: Political Economy of Administered Protection**


**Empirics**


Determination”. *Economics & Politics*; V.8-#2, pp. 111-131.


**Topic XII. Industry Level Policy: Competition Policy**

- **Theory**


A. Legal/Institutional Analysis of Trade and Competition Policy


B. Legal/Institutional Analysis of Trade and Competition Policy


**Final Examination: Distributed, Due.**