Political Economy Exam Question

From PLSC 519

January 5, 2024

1. Policy Stability and Agenda Setting in the Veto Players Model. Consider an extension of the veto-players model of Tsebelis (2002) and Chapter 4 of the Gehlbach textbook. There are three possible veto players A, B, and C with ideal points given by $x_A < x_B < x_C$ respectively, where $x \in \mathbb{R}$ represents a generic policy to be decided. Players have Euclidean preferences over policy, and the status quo policy is denoted by \bar{x} .

Play proceeds as follows: One player, the agenda setter, proposes some policy x as a take-it-or-leave-it offer. Each veto player then decides whether to approve the proposed policy. If all veto players approve, policy x is implemented. If one or more veto players does not approve, the status quo policy \bar{x} remains in place.

First consider a situation where only A and B are veto players (so C's approval is not needed for any policy change).

- (a) For all possible locations of the status-quo policy, characterize the winset $W(\bar{x})$: the set of policies weakly preferred to x by both veto players. What is the core (i.e., the set of policies for which the winset is empty) given this configuration of veto players?
- (b) Let B be the agenda setter. What is the equilibrium policy chosen in any subgameperfect Nash equilbrium as a function of the status-quo policy \bar{x} ?

Now let all three actors be veto players: A, B, and C.

- (c) For all possible locations of the status-quo policy, characterize the winset $W(\bar{x})$. How does the core change with the addition of this new veto player?
- (d) First assume that *B* remains the agenda setter as above. How, if at all, does the equilibrium policy chosen as a function of the status-quo change with the addition of the new veto player?
- (e) Now assume that C is the agenda setter. Characterize the policy implemented in equilibrium as a function of \bar{x} . Compare this with your answer for part c. Are there any values of \bar{x} for which the equilibrium change in policy is greater when C is added as a veto player and agenda setter?
- (f) What lessons can be drawn from this example about how the addition of veto players influences policy stability? Explain.

Question for PLSC 721 (Political Economy of Development)

This question focuses on Fujiwara (Econometrica, 2015)

- a. Discuss which classes of models predict that policy should be located close to the center of the distribution of voters' tastes.
- Explain how an expansion of the franchise could change equilibrium policy according to these models. Describe the electoral change in Fujiwara (2015). In what sense can this change in Fujiwara (2015) be interpreted as an expansion in the franchise? Be precise in your answer.
- c. Explain Table II in the paper. How is it identified? What are the main results?
- Policies are determined at the State level. Why does this imply that the identification strategy in Table II is not useful to determine the effects of the change in conduct of elections on policies?
 Describe with precision the identification strategy that the author uses for effects on policy.
- e. Describe the results: does policy shift in a way consistent with the predictions of the models you referred to above?

Introduction to Political Economy

- 1. Consider a society of three agents, $i \in \{1, 2, 3\}$. Each has preferences over a two dimensional choice space that are represented by the Cobb-Douglas utility functions, $u_i(x_1, x_2) = x_1^{\alpha_i} x_2^{1-\alpha_i}$. We can interpret x_1 as public good spending and x_2 as the private consumption good. Consider the choice set consisting of bundles (x_1, x_2) in R_+^2 . As an example, consider a very simple world in which x_1 is safety from invasion provided by a government and x_2 is food. Under what conditions (if any) are preferences of the three individuals single-peaked over this choice set?
- 2. Now suppose that the individuals each have income, denoted Y_i and that they will vote over a tax rate, r. Once a tax rate is selected, each agent gets public good level given by $x_1 = r(Y_1 + Y_2 + Y_3)$ and each agent keeps what they didn't pay as taxes as their private consumption, $x_{2i} = (1-r)Y_i$. Note the individual subscript on this level to denote that individuals have different consumption levels based on their individual income. First assume that $Y_1 = Y_2 = Y_3 = 1$. Suppose r is to be chosen from the choice set (0, 1) do the agents have single-peaked preferences over the problem of selecting r?
- 3. Assume that $\alpha_1 < \alpha_2 < \alpha_3$. Suppose two office seakeing candidates compete for office by announcing and committing to a tax rate, r. What policy will win in this model of electoral politics?
- 4. Now suppose that $\alpha_1 = \alpha_2 = \alpha_3$ but $Y_1 < Y_2 < Y_3$ and redo parts 2 and 3.
- 5. Speculate how you think parts 2 and 3 would go if we allowed for heterogeneity of both income and preferences.