



APPLIES TO ACADEMIC YEAR 2006/2007

## GRA 5919 Political Economy and Macroeconomics

### Program

Advanced Specialization Course (MSc), Master of Science in Political Economy

### Responsible for the course

Leif Helland, Erling Steigum

### Department

Public Governance

### Term

According to study plan

### ECTS Credits

6

This is one of the School's four courses dedicated to core questions in political economy, in this case the quest for economic stability. It requires no previous knowledge, but is primarily designed for students taking the MSc in Political Economy and therefore assumes some knowledge of political processes and policy making.

The central themes include the interplay between political institutions and macroeconomic policy, comparative analysis of economic policy regimes, and supranational economic and monetary unions.

### Objective

This course addresses the interplay between democratic institutions and macroeconomics, and particularly how democratic institutions affect economic performance and the quest for macroeconomic stability. The central focus is therefore on efforts to control inflation, deficits, currency volatility and promote (sustainable) economic growth. Answers are sought both by modeling macroeconomic outcomes as equilibria of political games and confronting the resulting predictions with (field and experimental) data to check how well they fare. The course addresses a series of questions about the relationship between political institutions and macroeconomic performance on a comparative basis, including analysis of developments at both national and international level. At the national level this includes the effect of different electoral systems, presidential arrangements, minority and coalition government, parliamentary procedures and budget rules on outcomes, as well as the merits of independent central banks and the effect of electoral cycles. At the international level the focus is particularly on currency regimes and optimal currency area theory, with special focus on the Economic and Monetary Union in Europe.

### Prerequisites

Bachelors degree

### Compulsory literature

#### Books:

Franzese, Robert J. 2002. Macroeconomic policies of developed democracies. Cambridge : Cambridge University Press

Jones, Charles I. 2002. Introduction to economic growth. 2nd ed. New York: W. W. Norton & Company

Levitt, Malcolm and Christopher Lord. 2000. The political economy of monetary union. Basingstoke : Macmillan

#### Collection of articles:

Compendium of Journal Articles, including articles/chapters by Paldam, von Hagen, Clark/Hallerberg, Bood, deGeus, Lovins, Wack, El-Agraa, Delors, Padoa-Schioppa, Stephens, Holsti, Artis, Dyson.

### Recommended literature

#### Books:

Alesina, Alberto F. 1997. Political cycles and the macroeconomy. Cambridge, Mass. : MIT Press

Bailey, Stephen J. 2002. Public sector economics : theory, policy and practice. Basingstoke : Macmillan

Baldwin, Richard and Charles Wyplosz. 2004. The economics of European integration. London : McGraw-Hill

Cox, Gary W. 1997. Making votes count : strategic coordination in the world's electoral systems. Cambridge : Cambridge University Press  
Gibbons, Robert. 1992. A primer in game theory. New York : Harvester Wheatsheaf  
Krehbiel, Keith. 1992. Information and legislative organization. Ann Arbor, Mich. : University of Michigan Press  
Pelkmans, Jacques. 2001. European integration : methods and economic analysis. 2nd ed. Harlow : Pearson Education  
Romer, David. 2006. Advanced macroeconomics. 3rd ed. Boston, Mass. : McGraw-Hill  
Tsebelis, George. 2002. Veto players : how political institutions work. Princeton, N.J. : Princeton University Press

**Other:**

Individual journal articles and book chapters available in the library and/or electronically will be recommended as further reading.

**Course outline**

1. Macroeconomic issues in political economy: theories and approaches. Competing approaches to economic stabilisation (inflation, unemployment, deficits, currency stability).
2. Comparative analysis of political systems by veto players, electoral institutions and fiscal constitutions.
3. Macroeconomic outcomes as equilibria of political games. Benevolent dictator/political games approaches to inflation, unemployment, debt and deficits.
4. National macroeconomic policies, games and outcomes: politics, deficits and debts. Institutional arrangements and political games, Central bank independence, political and business cycles, special interests, strategic play of current against future governments.
5. International political economy. Currency regimes and international arrangements. Optimal currency area theories (policy regimes, economic cycles, factor mobility) and institutional arrangements. Economic and Monetary Union in Europe (design, institutions, operation).

**Computer-based tools**

None

**Course structure**

36 hours

**Evaluation**

Individual term paper (80 %) and in-class presentation (20%).  
Both parts of the evaluation need to be passed in order to get a grade in the course.

**Evaluation code(s)**

GRA 59191 accounts for 100 % of the final grade in the course GRA 5919.

**Aids at the examination**

Bilingual dictionary

**Makeup exam**

Re-takes are only possible at the next time a course will be held. When course evaluation consists of class participation or process elements, the whole course must be re-evaluated when a student wants to retake an exam. Retake examinations entail an extra examination fee.

**Honor Code**

Academic honesty and trust are important to all of us as individuals, and they are encouraged and promoted by the honor system. This is a most significant university tradition. The honor system is the responsibility of students. As faculty, we share the commitment to the ideals of the honor system.

At no time should notes or papers or personal consultations based on previous semesters of this course be used. As part of the honor code papers handed in as part of the course is, at the discretion of the professor, scanned for plagiarism. We are using Safe Assignment in Black Board for this purpose. Any violation of the honor code will be dealt with in accordance with BI's procedures on cheating. These issues are a serious matter to everyone associated with the program. They are at the heart of the Honor Code and academy integrity. If you have any questions about your responsibilities under the honor code, please ask.