

**POSC 435: Politics and the Economy  
Spring 2019**

**Last update: January 10, 2019**  
School of International Relations  
University of Southern California

Lectures: TTh 12:30-1:50pm, VKC 152

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Office Hours: W 10am-12pm

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This syllabus is current as of the version date above. It is subject to change. You will be notified in class and/or by e-mail whenever the syllabus is updated. The current version of the syllabus will always be posted on Blackboard.

### **Course Description and Objectives**

This class studies the relationship between politics and the economy, with primary focus on how politics generates policy choices that in turn affect economic outcomes such as national income level, income inequality, and sustainable development. To a lesser degree, we will examine how the economy affects politics, such as how income inequality affects policy choices such as tax rates and the welfare state.

Students will learn a number of analytical techniques and theoretical models to answer questions such as how governments can promote economic growth and reduce poverty, why some governments control the economy and what are the effects of those choices, and why countries have different policies regarding the environment.

### **Course Requirements and Grading**

- Attendance, Participation, and Classroom Assignments: 20%
- Research Memo and Presentation: 20%
- Midterm: 25%
- Final Exam: 35%

### **Participation and Classroom Assignments**

Students are expected to complete all assigned readings, videos, and podcasts before coming to lecture. In general, the professor will not present material that was assigned in the readings. Instead, lecture time will largely be devoted to applying the readings to review questions, analytical exercises, abbreviated research projects, debates, and related activities. Some of these activities will be individual but most will be done in pairs or small groups. In most weeks, some of these groups will be asked to present their analysis or research conclusions. Some of the activities will be graded based on performance, others will be graded based on completion. In addition, the midterm and exam questions will draw closely from the classroom assignments.

Some classroom assignments will include questions [PollEv.com/sir211](https://poll-ev.com/sir211). You can visit it from your laptop or smartphone during class. To make sure your answers are recorded, **register using your USC email address**. More details will be provided during the first week of class. **Every time you complete a quiz, you will need to log in first.**

## **Research Memo and Presentation**

In the final week, groups of 2-4 students will research in greater detail a topic from class, or a closely related topic, and present their analysis to the class. Details to follow...

## **Exams**

The midterm and final exam will be in-class and will cover all readings/videos/podcasts assigned for the class. Students will be allowed to have a one-page "cheat sheet" for each exam. The exams will primarily cover questions or topics from the Classroom Assignments. Extra credit questions may cover material from beyond the Classroom Assignment topics.

## **Recommended Textbooks**

There are no required textbooks for the class; all readings will be made available on Blackboard. However, there are a few textbooks from which we will be reading a number of chapters, and students may find it helpful to purchase the book to read related chapters.

- Przeworski. (2003). *States and Markets*.  
The course is largely organized around this book and most of the book is assigned as optional, if not required, reading. However, the book is targeted toward graduate students that have taken advanced math classes. The required excerpts from the book will be made available on Blackboard.
- Oatley. (2012). *International Political Economy 5<sup>th</sup> edition*.
- Clark, Golder and Golder (CG&G). 2018. *Principles of Comparative Politics*  
We'll read a few chapters and some shorter excerpts from these undergraduate-level textbooks, which is written for IPE and Introduction to Comparative Politics courses and includes several topics relevant for this class. Required readings will be available on Blackboard; students who wish to read the optional readings or other related sections should purchase the textbooks.

## Americans with Disabilities Act

Students requesting accommodations based on disability are required to register with Disability Services and Programs each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure the letter is delivered to me as early in the semester as possible. DSP is open Monday-Friday 8:30-5:00. The office is in Student Union 301 and their phone number is 213-740-0776. Students must make their request in the stipulated period prior to an exam.

## Policy on Academic Ethics and Honesty

Academic honesty is fundamental to the activities and principles of a university. All members of the academic community must be confident that each person's work has been responsibly and honorably acquired, developed and presented. Any effort to gain an advantage not given to all students is dishonest whether or not the effort is successful. The academic community regards academic dishonesty as an extremely serious matter, with serious consequences. When in doubt about plagiarism, paraphrasing, quoting or collaboration, consult your teaching assistant. For more information on USC policies regarding student integrity and plagiarism, see <http://dornsife.usc.edu/usc-policies/#plagiarism>.

## Course Schedule

### Week 1: What is Political Economy? (Jan. 8-10)

Due Thursday:

- O’Neil, *Essentials of Comparative Politics*, 6<sup>th</sup> ed., Chapter 4, pp. 96-132.

### Week 2: How can the economic activities of millions be coordinated? (Jan. 15-17)

Due: Tuesday:

- Przeworski. (2003). *States and Markets*, Chapter 1, pp. 1-16.
- Milton Friedman. (1962). *Capitalism and Freedom*, Chapter 1: The Relation between Economic Freedom and Political Freedom, excerpt (pp. 15-24)
- Lindblom, Charles. (1982). “Market as Prison.” *The Journal of Politics*, 44(2): 324-336.

Due Thursday:

- Jonathan Haidt. (2014). [Three Stories About Capitalism](#)
- Peter A. Hall and David Soskice, “[An Introduction to Varieties of Capitalism](#).” *Varieties of Capitalism*, Chapter 1.1-1.2.2, pp. 1-9.
- Matt Yglesias. (2018). “[Elizabeth Warren has a plan to save capitalism](#).” Vox.com.
- Walt Bogdanich and Michael Forsythe. (2018). “[How McKinsey Has Helped Raise the Stature of Authoritarian Governments](#).” *New York Times*.

### Week 3: How do markets affect prosperity? (Jan. 22-24)

Due Tuesday:

- NPR Planet Money. (2012). Episode 238: [Making Christmas More Joyful and Efficient](#).
- Smith. (1776). Excerpts from *An Inquiry into the Nature and Causes of the Wealth of Nations*. In *Essential Readings in Comparative Politics*, pp. 141-145.
- Rodrik. (2011). *The Globalization Paradox*. Chapter 3: Why doesn’t Everyone Get the Case for Free Trade?, pp. 47-51.
- Oatley. (2012). *International Political Economy 5<sup>th</sup> ed.*, The Economic Case for Trade, pp. 46-53.
- OPTIONAL:
  - If the Oatley reading above wasn’t clear, be sure to watch Khan Academy. Microeconomics > [Product possibilities frontier and Comparative advantage and gains from trade](#)
  - Przeworski. (2003). Chapter 2.1-2.3.

Due Thursday:

- Wacziarg and Welch. (2008). “[Trade Liberalization and Growth: New Evidence](#).” *The World Bank Economic Review* 22(2): 187–231.

### Week 4: When do markets fail? (Jan. 29-31)

Due Tuesday:

- NPR Planet Money. (2015). [Episode 645: How to Stop an Asteroid](#).
- Przeworski. (2003). Chapter 2.4-2.5, pp. 28-41. (Skim over the math)
- CGG 3<sup>rd</sup> ed., Collective Action Theory, pp. 280-285.
- The Economist. (2016). “[Secrets and Agents](#).”
- The Economist. (2016). “[Coase’s Theory of the Firm](#).”
- Khan Academy. Microeconomics > [Public Goods and Externalities](#)

- OPTIONAL:
  - Przeworski. (2003). Chapters 3-4.
  - Oatley 5<sup>th</sup> ed. Hegemons, Public Goods, and the World Trading System, pp. 28-32

Due Thursday:

- The Economist. (2009). [“Universal health insurance is a common good.”](#)
- The Economist. (2002). [“Never the twain shall meet.”](#)
- The Economist. (2016). [“Pigouvian Taxes.”](#)
- The Economist. (2018). [“How to design carbon taxes.”](#)

### Week 5: What is the role of the state in the economy? (Feb. 5-7)

Due Tuesday:

- Przeworski. (2003). Chapter 5.1-5.3, pp. 79-85
- CGG Chapter 4.
- The Economist. (2016). [“What is the Nash Equilibrium and why does it matter.”](#)
- Hall and Soskice, [“An Introduction to Varieties of Capitalism.”](#) Chapter 1.2.3, pp. 9-12.
- OPTIONAL: If you need more on the prisoners’ dilemma or the Nash equilibrium, watch Khan Academy. Microeconomics > [Game theory and Nash equilibrium tutorial](#)

Due Thursday:

- Fukuyama. “The Imperative of State-Building.” *Journal of Democracy* 15(2): 17-31
- CGG 3<sup>rd</sup> ed., pp. 330-334. The effect of regime type on economic growth: Property rights
- Michael Ruane. (2019). [“Volunteers, friends and states try to fill the void left by the federal shutdown.”](#) *Washington Post*.
- NPR Planet Money. (2015). Episode 599: [The Invisible Wall](#).
- The Economist. (2001). [“No title.”](#)
- The Economist. (2006). [“The mystery of capital deepens.”](#)

### Week 6: Why do states restrict markets? (Feb. 12-14)

Due Tuesday:

- Oatley 5<sup>th</sup> ed. Trade Policy Preferences and Organizing Interests, pp. 69-80.
- Oatley 5<sup>th</sup> ed. Domestic Interests, International Pressures, and Protectionist Coalitions; The Structuralist Critique, pp. 111-121.
- The Economist. (2017). [“The University of Chicago worries about a lack of competition.”](#)
- OPTIONAL:
  - Przeworski. (2003). Chapter 6
  - Rodrik. (2011). *The Globalization Paradox*. Chapter 3: Why doesn’t Everyone Get the Case for Free Trade? pp. 51-66

Due Thursday:

- NPR Planet Money. (2013). [Episode 454: The Lollipop War](#).
- NPR Planet Money. (2015). [Episode 632: The Chicken Tax](#).
- The Economist. (2016). [“Trade, at what price?”](#)
- The Economist. (2015). [“How weak regulation is helping to build corporate kingdoms in America.”](#)
- The Economist. (2018). [“Which American industries are most in danger of monopoly?”](#)
- Ritholz. (2018). [“Taxi Cab Owners and Regulators Created Uber.”](#) Bloomberg.com.

### **Week 7: How can states promote development? (Feb. 19-21)**

Due Tuesday:

- Oatley 5<sup>th</sup> ed. States and Industrial Policy, pp. 89-103.
- Oatley 5<sup>th</sup> ed. Import Substitution Industrialization, pp. 121-132.
- Khan Academy. Microeconomics > [Positive externalities of innovation](#)
- OPTIONAL: Przeworski. (2003). Chapter 9

Due Thursday:

- Rodrik. (2007). *One Economics, Many Recipes*.
  - Chapter 1: Fifty Years of Growth (and Lack Thereof), pp. 14-55.
  - Ten Design Principles for Industrial Policy, pp. 114-117.
  - Institutions for High Quality Growth, pp. 153-161.
- The Economist. (2013). [“The Entrepreneurial State.”](#)
- The Economist. (2017). [“China sets its sights on dominating sunrise industries.”](#)
- The Economist. (2015). [“How renewable energy can become competitive.”](#)
- The Economist. (2018). [“What governments can do for the losers from free trade.”](#)

### **Week 8: Review and Midterm (Feb. 26-28)**

### **Week 9: What do rulers want, and how does that affect their economies? (Mar. 5-7)**

Due Tuesday:

- Przeworski. (2003). States and Markets, Chapter 5.4-5.5, Chapter 8
- Olson. (1993). “Dictatorship, Democracy, and Development.” *APSR* 87(3): 567-576
- CGG 3<sup>rd</sup> ed., pp. 345-350.
- CGG 3<sup>rd</sup> ed., pp. 353-372, 382-400.
- CGG 3<sup>rd</sup> ed., pp. 468-475.

Due Thursday:

- Rock and Bonnett. (2004). “The Comparative Politics of Corruption: Accounting for the East Asian Paradox in Empirical Studies of Corruption, Growth and Investment.” *World Development* 32(6). Read Sections 1, 2, and 4 (pp. 99-105, 110-11)
- The Economist. (2011). [“Corrosive corruption.”](#)
- The Economist. (2015). [“Democracy to the rescue.”](#)

## **SPRING BREAK**

### **Week 10: How do individuals who disagree make decisions that affect the group? (Mar. 19-21)**

Due Tuesday:

- CGG, 3<sup>rd</sup> ed., Chapter 11, pp. 410-441
- OPTIONAL: Przeworski. (2003). Chapter 10.1-10.4.1

Due Thursday:

- Oatley 5<sup>th</sup> ed. Trade Bargaining and Enforcing Agreements, pp. 53-67
- Bawn. (2006). “Short versus Long Coalitions: Electoral Accountability and the Size of the Public Sector.” *American Journal of Political Science* 50(2): 251-265.

### **Week 11: How can those who are elected by a part rule on behalf of all? (March 26-28)**

Due Tuesday:

- Przeworski. (2003). Chapter 7

- CGG 3<sup>rd</sup> edition, Chapter 12 excerpts: pp. 453-458, 468-475, 499-511

Due Thursday:

- CGG 3<sup>rd</sup> edition, Veto Players, pp. 679-688
- Andrews and Montinola. (2004). “Veto Players and the Rule of Law in Emerging Democracies.” *Comparative Political Studies* 37(1): 55-87.
- The Economist. (2008). [“Order in the jungle.”](#)
- Dylan Matthews. (2013). [“The shutdown is the Constitutions’s fault.”](#)
- OPTIONAL: Tsebelis. (2002). *Veto Players*, Chapter 3, pp. 67-90.

### **Week 12: How do different governments address poverty and inequality? (Apr. 2-4)**

Due Tuesday:

- Melzer and Richard. 1981. “A Rational Theory of the Size of Government,” *Journal of Political Economy*, 89(5): 914-927. (First 3-4 pages)
- CGG 3<sup>rd</sup> ed., pp. 335-345. Why democracy might – or might not – hurt property rights.
- CGG 3<sup>rd</sup> ed., Economic and Cultural Determinants of Fiscal Policy, pp. 728-738.
- OPTIONAL:
  - Przeworski. (2003). Chapter 10.4.2-10.5
  - The Economist. (2018). [“Was John Maynard Keynes a liberal?”](#)

Due Thursday:

- O’Neil. Political Parties and Electoral Systems, pp. 156-165
- CGG 3<sup>rd</sup> ed., Economic and Cultural Determinants of Fiscal Policy, pp. 738-745.
- Oatley. (2012). Political Institutions and the supply of trade policy, pp. 81-86.
- Edmondson. (2018). [“Senate, Rejecting Curbs on Food Stamps, Passes Compromise Farm Bill.”](#) *New York Times*.
- Hall and Soskice, [“An Introduction to Varieties of Capitalism.”](#) Chapter 1.2.6, pp. 17-22.

### **Week 13: How do governments address economic recessions? (Apr. 9-11)**

Due Tuesday:

- Keynes vs. Hayek: <https://www.youtube.com/watch?v=d0nERTFo-Sk>
- Oatley 5<sup>th</sup> ed. A society-centered approach to monetary and exchange-rate policies, pp. 249-272
- The Economist. (2016). [“Where does the buck stop?”](#)
- The Economist. (2016). [“Two out of three ain’t bad.”](#)

Due Thursday:

- Oatley 5<sup>th</sup> ed. Chapter 12: A state-centered approach to monetary and exchange-rate policies, pp. 273-297
- NPR Planet Money. 2103. [Episode 421: The birth of the dollar bill.](#)
- Dube, Arindrajit. (2013). [“Reinhart/Rogoff and Growth in a Time Before Debt.”](#)
- Smith. (2018). [“Trump? Obama? No, Thank These Three for This Bountiful Economy. Bloomberg Opinion.”](#)

### **Week 14: Research topic development and design (April 16-18)**

### **Week 15: Student presentations (April 23-25)**

### **May 8: Final Exam, 2-4pm**