

# BEHAVIORAL POLITICAL ECONOMY

Bocconi University  
Spring 2018  
PhD in Economics & Finance

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**Office:** Via Rontgen 1, 5-C2-05

**Office Hours:** Tuesdays 18:00-19:00 (or by appointment)

**Description:** This course provides an overview of a recent, yet rapidly growing, research frontier at the intersection of economics, psychology and political science which examines the implications of cognitive biases, imperfect best response and limited strategic thinking for the behavior of voters and politicians. We will review standard theoretical models of representative democracy, discuss the limitations of their assumptions at the light of empirical evidence, and explore how enriching them with insights from cognitive psychology and modeling techniques from behavioral economics can improve their predictive power.

**Requirements:** I expect students to attend class. The main component of your grade (80%) will be a final paper (~5 pages) presenting a research idea based on a theoretical model and/or a laboratory or online experiment. I expect the paper to be well motivated and carefully written, with a thoughtful connection to the relevant literature discussed in class. The paper is due the last day of class, Wednesday March 21. The remainder of your grade will be determined by class participation (10%) and by the presentation of your research project during the last week of the course (10%).

## SCHEDULE

We will always meet in via Rontgen 1, 5-D3-SR01.

- L1: Tuesday, February 20, 16:15-17:45
- L2: Wednesday, February 21, 14:30-16:00
- L3: Thursday, February 22, 16:15-17:45
- L4: Tuesday, February 27, 16:15-17:45
- L5: Wednesday, February 28, 14:30-16:00
- L6: Thursday, March 1, 16:15-17:45
- L7: Tuesday, March 6, 16:15-17:45
- L8: Thursday, March 8, 16:15-17:45
- L9: Tuesday, March 13, 16:15-17:45
- L10: Thursday, March 15, 16:15-17:45
- L11: Tuesday, March 20, 16:15-17:45
- L12: Wednesday, March 21, 16:15-17:45

## COURSE OUTLINE

### **Week 1: Standard Models and (Counter) Empirical Evidence**

L1: Introduction + The Spatial Model and (Counter) Empirical Evidence

L2 – L3: Retrospective Voting and (Counter) Empirical Evidence

### **Week 2: Voters' Non-Standard Preferences**

L4: Context-Dependent Preferences / Focusing

L5: Temptation / Self-Control / Time-Inconsistency

L6: Global Evidence on Preferences and Political Behavior

### **Week 3: Biased Information Processing**

L7: Motivated Reasoning / Confirmation Bias

L8: Overconfidence / Correlation Neglect

### **Week 4: Biased Information Processing + Concluding Remarks**

L9: Social Media, News and Fake News

L10: What Have We Learnt and Where Do We Go From Here?

## EXTENDED READING LIST

The references below are way more exhaustive than what will be covered in class. They are meant to provide students with useful information about research topics.

### **1. Non-Standard Preferences**

#### 1.1 Prospect Theory / Reference Dependence / Loss Aversion

Attanasi, Giuseppe, Luca Corazzini, and Francesco Passarelli, 2017, "Voting as a Lottery," *Journal of Public Economics*, 146: 129-137.

Acharya Avidit, and Edoardo Grillo, 2017, "A Behavioral Foundation for Audience Costs," Working Paper.

Alesina, Alberto, and Francesco Passarelli, 2017, "Loss Aversion in Politics," Working Paper.

Charité, Jimmy, Raymond Fisman, and Ilyan Kuziemko, 2015, "Reference Points and Redistributive Preferences: Experimental Evidence," Working Paper.

Gallice, Andrea, and Edoardo Grillo, 2016, "Economic and Class Voting in a Model of

Redistribution with Social Concerns,” Working Paper.

Grillo, Edoardo, 2016, “The Hidden Cost of Raising Voters' Expectations: Reference Dependence and Politicians' Credibility,” *Journal of Economic Behavior and Organization*, 130: 126-143.

Hassler, John, and José V. Rodríguez Mora, 2007, “Political Commitment and Loss Aversion,” Working Paper.

Lockwood, Ben, and James Rockey, 2017, “Negative Voters? Electoral Competition with Loss-Aversion”, Working Paper.

Mercer, Jonathan, 2005, "Prospect Theory and Political Science," *Annual Review of Political Science*, 8: 1-21.

Vis, Barbara, and Kees Van Kersbergen, 2007, "Why and How do Political Actors Pursue Risky Reforms?" *Journal of Theoretical Politics*, 19(2): 153-172.

### 1.2 Temptation / Self-Control / Time-Inconsistency

Bisin, Michele, Alessandro Lizzeri, and Leeat Yariv, 2015, “Government Policy with Time Inconsistent Voters,” *American Economic Review*, 105(6): 1711-1737.

Fowler, H. James, and Cindy D. Kam, 2006, “Patience as a Political Virtue: Delayed Gratification and Turnout,” *Political Behavior*, 28: 113-128.

Hill, Seth J., 2016, “Following Through on an Intention to Vote: Present Bias, Norms, and Turnout,” Working Paper.

Jackson, Matthew O., and Leeat Yariv, 2014, “Present Bias and Collective Dynamic Choice in the Lab,” *American Economic Review*, 104(12): 4184-4204.

Jackson, Matthew O., and Leeat Yariv, 2015, “Collective Dynamic Choice: The Necessity of Time Inconsistency,” *American Economic Journal: Microeconomics*, 7(4): 150-178.

Lizzeri, Alessandro and Leeat Yariv, 2017, “Collective Self Control,” *American Economic Journal: Microeconomics*, 9(3): 213-244.

Piguillem, Facundo, and Alessandro Riboni, 2015, “Spending Biased Legislators: Discipline through Disagreement,” *Quarterly Journal of Economics*, 130(2): 901-949.

Schafer, Jerome, 2017, “Delayed Gratification in Political Behavior: Time Preferences Predict Turnout and Donations”, Working Paper.

### 1.3 Context-Dependent Preferences / Framing / Focusing / Salient-Thinking

Aragones, Enriqueta, Micael Castanheira, and Marco Giani, 2015, "Electoral Competition through Issue Selection,” *American Journal of Political Science*, 59: 71-90.

Callander, Steven and Catherine H Wilson, 2006, “Context-Dependent Voting,” *Quarterly Journal of Political Science*, 1(3): 227–255.

Callander, Steven and Catherine H Wilson, 2008, "Context-Dependent Voting and Political Ambiguity,” *Journal of Public Economics*, 92(3): 565–581.

Chong, Dennis, and James N. Druckman., 2007, "Framing Theory," *Annual Review of Political Science*, 10: 103-126.

Druckman, James N., and Arthur Lupia, 2000, "Preference Formation," *Annual Review of Political Science*, 3(1): 1-24.

Nunnari, Salvatore and Jan Zapal, 2017, "A Model of Focusing in Political Choice," Working Paper.

#### 1.4 Emotions / Values

Besley, Timothy, and Torsten Persson, 2017, "Democratic Values and Institutions," Working Paper.

Enke, Benjamin, 2018, "Moral Values and Voting: Trump and Beyond," Working Paper.

Glaeser, Edward L., 2005, "The Political Economy of Hatred," *Quarterly Journal of Economics*, 120(1): 45-86.

Marcus George E., 2000, "Emotions in Politics," *Annual Review of Political Science*, 3: 221-250.

Passarelli, Francesco, and Guido Tabellini, 2017, "Emotions and Political Unrest", *Journal of Political Economy*, 125(3): 903-946.

Tabellini, Guido, 2008, "The Scope of Cooperation: Values and Incentives," *Quarterly Journal of Economics*, 123(3): 905-950.

Van Winden, Frans, 2015, "Political Economy with Affect: On the Role of Emotions and Relationships in Political Economics," *European Journal of Political Economy*, 40(B): 298-311.

#### 1.7 Other Papers on Non-Standard Preferences

Bartling, Björn, Ernst Fehr, and Holger Herz, 2014, "The Intrinsic Value of Decision Rights," *Econometrica* 82(6): 2005-2039.

Bade, Sophie, 2011, "Electoral Competition with Uncertainty Averse Parties," *Games and Economic Behavior*, 72(1): 12-29.

Callander, Steven, 2007, "Bandwagons and Momentum in Sequential Voting," *Review of Economic Studies*, 74(3): 653-684.

Camera, Gabriele, Cary Deck, and David Porter, 2017, "Do Economic Inequalities Affect Long-Run Cooperation?" Working Paper.

Degan, Arianna, and Ming Li, 2015, "Psychologically-Based Voting with Uncertainty," *European Journal of Political Economy*, 40(B): 242-259.

Della Vigna, Stefano, John List, Ulrike Malmendier, and Gautam Rao, 2017, "Voting to Tell Others," *Review of Economic Studies*, 84: 143-18.

Falk, Armin, Anke Becker, Thomas Dohmen, Benjamin Enke, David B. Huffman, and Uwe Sunde, Forthcoming, "Global Evidence on Economic Preferences," *Quarterly Journal of Economics*

Finan, Frederico and Laura Schechter, 2012, "Vote Buying and Reciprocity," *Econometrica*, 80(2): 863–881.

Hillman, Arye L., 2010, "Expressive Behavior in Economics and Politics," *European Journal of Political Economy*, 26(4): 403-418.

Höchti, Wolfgang, Rupert Sausgruber, and Jean-Robert Tyran, 2012, "Inequality Aversion and Voting on Redistribution," *European Economic Review*, 56(7): 1406-1421.

Morton, Rebecca B., and Kai Ou, 2015, "What Motivates Bandwagon Voting Behavior: Altruism or a Desire to Win?," *European Journal of Political Economy*, 40(B), 224-241.

Patty, John W., 2009, "Incommensurability and Issue Voting," *Journal of Theoretical Politics*, 19(2): 115–131.

## **2 Imperfect Beliefs / Biased Information Processing**

### 2.1 Retrospective Voting / Memory / Attribution Error

Collier, Kenneth E., McKelvey, Richard D., Ordeshook, Peter C., and Williams, Kenneth C., 1987, "Retrospective Voting: An Experimental Study," *Public Choice* 53: 101-130.

Esponda, Ignazio, and Demian Pouzo, 2017, "Conditional Retrospective Voting in Large Elections", *American Economic Journal: Microeconomics*, 9(2): 54-75.

Findley, T. Scott , 2015, "Hyperbolic Memory Discounting and the Political Business Cycle," *European Journal of Political Economy*, 40(B): 345-359.

Glaeser, Edward, and Giacomo Ponzetto, 2017, "Fundamental Errors in the Voting Booth," Working Paper.

Healy, Andrew, and Neil Malhotra, 2013, "Retrospective Voting Reconsidered," *Annual Review of Political Science*, 16: 285-306.

Liberini, Federica, Michela Redoano, and Eugenio Proto, 2017, "Happy Voters," *Journal of Public Economics*, 146: 41-57.

Nunn, Nathan, Nancy Qian, and Jaya Wen, 2018, "Distrust and Political Turnover," Working Paper.

Spiegler, Ran, 2013, "Placebo Reforms," *American Economic Review*, 103(4): 1490-1506.

Woon, Jonathan, 2012, "Democratic Accountability and Retrospective Voting: A Laboratory Experiment," *American Journal of Political Science*, 56(4): 913-930.

### 2.2 Correlation Neglect / Overconfidence

Levy, Gilat and Ronny Razin, 2015a, "Correlation Neglect, Voting Behavior, and Information Aggregation," *American Economic Review*, 105(4): 1634-1645.

Levy, Gilat and Ronny Razin, 2015b, "Does Polarization of Opinions Lead to Polarization of Platforms? The Case of Correlation Neglect," *Quarterly Journal of Political Science*, 10(3): 321-355.

Ortoleva, Pietro, and Erik Snowberg, 2015a, "Overconfidence in Political Behavior,"

*American Economic Review*, 105(2): 504-535.

Ortoleva, Pietro and Erik Snowberg, 2015b, "Are Conservatives Overconfident?," *European Journal of Political Economy*, 40(B): 333-344

### 2.3 Motivated Reasoning / Confirmation Bias

Bullock, John G. , Alan S. Gerber, Seth J. Hill, and Gregory A. Huber, 2015, "Partisan Bias in Factual Beliefs about Politics," *Quarterly Journal of Political Science*, 10: 519-578.

Hill, Seth J., 2017, "Learning Together Slowly: Bayesian Learning about Political Facts," *Journal of Politics*, 79(4): 1403-1418.

Lockwood, Ben, 2017, "Confirmation Bias and Electoral Accountability," *Quarterly Journal of Political Science*, 11(4): 471-501.

### 2.4 Limited Attention / Rational Inattention

Matejka, Filip, and Guido Tabellini, 2016, "Electoral Competition with Rationally Inattentive Voters," Working Paper.

Prato, Carlo, and Stephane Wolton, 2016, "The Voters' Curses: Why We Need Goldilocks Voters," *American Journal of Political Science* 60(3): 726-737.

Prato, Carlo, and Stephane Wolton, Forthcoming, "Rational Ignorance, Populism, and Reform," *European Journal of Political Economy*.

Ogden, Benjamin, 2016, "The Imperfect Beliefs Voting Model," Working Paper.

Trombetta, Federico, 2017, "When the Light Shines Too Much: Rational Inattention, Populism and Pandering," Working Paper.

### 2.6 Underappreciation of Equilibrium Effects

Bednar, Jenna, Andrea Jones-Rooy, Scott E. Page, 2015, "Choosing a Future Based on the Past: Institutions, Behavior, and Path Dependence," *European Journal of Political Economy*, 40(B): 312-332.

Dal Bò, Ernesto, Pedro Dal Bò, and Erik Eyster, Forthcoming, "The Demand for Bad Policy when Voters Underappreciate Equilibrium Effects," *Review of Economic Studies*.

Gersbach, H., and A. Schniewind, 2011, "Collective Bargaining, Awareness of General Equilibrium Effects, and Unemployment," *International Economic Review*, 52(3): 693-712.

### 2.7 Social Media and (Fake) News

Alcott, Hunt, and Matthew Gentzkow, 2017, "Social Media and Fake News in the 2016 Election," *Journal of Economic Perspectives*, 31(2): 211-236.

Barrera, Oscar, Sergei Guriev, Emeric Henry, and Ekaterina Zhuravskaya, 2017, "Facts, Alternative Facts, and Fact Checking in Times of Post-Truth Politics," Working Paper.

Boxell, Levi, Matthew Gentzkow, and Jesse M. Shapiro, 2017, "Is the Internet Causing

Polarization? Evidence from Demographics," Working Paper.

Eisensee, Thomas, and David Strömberg, 2007, "News Droughts, News Floods, and U.S. Disaster Relief," *Quarterly Journal of Economics*, 122(2): 693-728.

## 2.8 Other Papers on Biased Information Processing

Aragones, Enriqueta, 1997, "Negativity Effect and the Emergence of Ideologies," *Journal of Theoretical Politics*, 9(2): 189–210.

Babcock, Linda, and George Loewenstein, 1997, "Explaining Bargaining Impasse: the Role of Self-Serving Biases," *Journal of Economic Perspectives*, 11(1): 109-126.

Benabou, Roland, and Jean Tirole, 2006, "Belief in a Just World and Redistributive Politics," *Quarterly Journal of Economics*, 121(2): 699-746.

Benjamin, Daniel, and Jesse Shapiro, 2009, "Thin-Slice Forecasts of Gubernatorial Elections," *Review of Economics and Statistics*, 91(3): 523-536.

Gimpelson, Vladimir, and Daniel Treisman, Forthcoming, "Misperceiving Inequality," *Economics and Politics*.

Schuett, Florian, and Alexander K. Wagner, 2011, "Hindsight-Biased Evaluation of Political Decision Makers," *Journal of Public Economics*, 95(11): 1621-1634.

Szembrot, Nichole, Forthcoming, "Experimental Study of Cursed Equilibrium in a Signaling Game", *Experimental Economics*.

Szembrot, Nichole, 2017, "Are Voters Cursed When Politicians Conceal Policy Preferences?", *Public Choice*, 173(1): 25-41.

Wolfers, Justin, 2007, "Are Voters Rational? Evidence from Gubernatorial Elections," Working Paper.

## **3 Imperfect Optimization**

### 3.1 Quantal Response Equilibrium

Goeree, Jacob K., and Charles A. Holt, 2000, "Asymmetric Inequality Aversion and Noisy Behavior in Alternating-Offer Bargaining Games," *European Economic Review*, 44(4): 1079-1089.

Goeree, Jacob K., and Charles A. Holt, 2005, "An Explanation of Anomalous Behavior in Models of Political Participation," *American Political Science Review*, 99(2): 201-213.

Nunnari, Salvatore, and Jan Zapal, 2016, "Gambler's Fallacy and Imperfect Best Response in Legislative Bargaining," *Games and Economic Behavior*, 99: 275–294.

### 3.2 Aspiration-Based Adaptive Rules / Stochastic Reinforcement Processes

Andonie, Costel, and Daniel Diermeier, 2017, "Path-Dependency and Coordination in Multi-Candidate Elections with Behavioral Voters," *Journal of Theoretical Politics*, 29(4): 520–545.

Bendor, Jonathan, Daniel Diermeier, David A Siegel, and Michael M Ting, 2011, *A*

*Behavioral Theory of Elections*, Princeton University Press, Princeton, NJ.

Bendor, Jonathan, Daniel Diermeier, and Michael M. Ting, 2016, "Inequality, Aspirations, and Social Comparisons," *Political Science Research and Methods* 4(3): 451-476.

Diermeier, Daniel and Christopher Li, 2017a, "Electoral Control with Behavioral Voters," *Journal of Politics*, 79(3): 890–902.

Diermeier, Daniel and Christopher Li, 2017b, "Partisan Affect and Elite Polarization," Working Paper.

#### **4 General References on Bounded Rationality in Political Behavior**

Achen, Christopher H., and Larry M. Bartels, 2016, *Democracy for Realists: Why Elections Do Not Produce Responsive Government*, Princeton University Press.

Ashworth, Scott, and Ethan Bueno de Mesquita, 2014, "Is Voter Competence Good for Voters? Information, Rationality, and Democratic Performance," *American Political Science Review*, 108(3): 565-587.

Ashworth, Scott, Ethan Bueno de Mesquita, and Amanda Friedenberg 2018, "Learning about Voter Rationality," *American Journal of Political Science*, 62(1): 37-54.

Bendor, Jonathan, 2010, *Bounded Rationality and Politics*, University of California Press, Berkeley, CA.

Caplan, Brian, 2007, *The Myth of the Rational Voter: Why Democracies Choose Bad Policies*, Princeton University Press, Princeton, NJ.

Hafner-Burton, Emilie M., D. Alex Hughes, and David G. Victor, 2013, "The Cognitive Revolution and the Political Psychology of Elite Decision Making," *Perspectives on Politics*, 11(2): 368-386.

Hafner-Burton, Emilie M., Stephan Haggard, David A. Lake, and David G. Victor, 2017, "The Behavioral Revolution and International Relations," *International Organization*, 71(S1): S1-S31.

Palfrey, Thomas R., 2017, "Experiments in Political Economy," in Kagel, John and Alvin Roth (Eds.), *The Handbook of Experimental Economics Vol. II*, Princeton University Press, Princeton, NJ.

Quattrone, George A., and Amos Tversky, 1988, "Contrasting Rational and Psychological Analyses of Political Choice," *American Political Science Review*, 82(3): 719-736.

Schnellenbach, Jan, and Christian Schubert, 2015, "Behavioral Political Economy: A Survey," *European Journal of Political Economy*, 40: 395-417.

Wilson, Rick, 2011, "The Contribution of Behavioral Economics to Political Science," *Annual Review of Political Science*, 14: 201-223.