

**PS 343: Mid-Term Exam, SAMPLE QUESTIONS:  
Answers/Hints**

**Part I: Tufte, *Political Control of the Economy***

1. In attempting to manipulate economic outcomes for electoral purposes, give three characteristics of policies that would make them relatively more effective as instruments of such electioneering.

[Straight from lecture/notes: the four "-ables".]

**Palpable (define) (to whom?)**

**Attributable (define) (by whom? to whom?)**

**Timeable/Targetable (define) (by whom? to whom?)**

**Manipulable (define) (by whom?)**

2. Considering monetary policy, broad fiscal policy (like budgetary deficits), and transfer payments (like social-security and veterans' benefits), which do you think incumbent US presidents are most likely to use most for *electioneering*.

Consider the relative palpability, attributability, targetability, timeability, and manipulability of these policy instruments from a US presidents' viewpoint. Should use more the ones with stronger scores on these characteristics. N.b., monetary policy in US case probably more controlled by Fed than Pres. Broad stimulatory fiscal policies, and monetary policies too, aim to spur the macroeconomy, which does affect a lot of folk, which is good from pres' standpoint, but hard to control these effects' timing or targeting and not tremendously attributable. Transfers scores well on all of these considerations, making it a highly preferred tool. SO, I'd rank Transfers>Fiscal>Monetary. (NOTE: This is one logical answer and the one I was expecting; one might be able to offer and defend alternatives successfully. If so, you'd get credit, but the key would be to apply the "-able" considerations correctly and conclude logically correctly based on that. Thus, explaining your logic for answers you give is essential.)

3. If I told you a researcher estimated the following equation using US data, what sign does Tuftean Electoral-Cycle theory lead you to expect for  $b_1$ ?

$$T = b_0 + b_1 \text{ELE} + e$$

where:

T=transfer payments as a share of GDP

ELE=an election-year indicator, equal to 1 in the year of a presidential election (which occur in November) and equal to zero otherwise.

Tuftean electoral-cycle theory leads us to expect pre-electoral surges in transfers (especially transfers, see previous) largesse. ELE is equal to 1 in pres election years, which years are mostly pre-election (November & December are actually post-election), but basically the election-year indicator is indicating the pre-election period. We expect greater transfers in that year than others by the theory, so ELE should receive a positive coefficient.  $b_1$  should be positive.

4. Suppose this researcher estimates the same equation once using US data and once using data from the UK. In which democracy would Tuftean theory lead you expect a higher  $b_1$  estimate? Give at least two reasons for your answer.

In the actual exam, I would try to give you some description of relevant characteristics of the countries or contexts in question (probably some irrelevant characteristics too, so as not to give away the answer too much). In this case, some relevant characteristics include: US is Federal, UK Unitary. US central-govt policymaking authority divides between a president and two houses of the legislature; UK central executive and legislative policymaking authority is fused in its parliamentary government. Party discipline/unity is strong in the UK and weak in the US. All of these considerations suggest stronger/larger cycles in transfers in the UK than the US. The US is a larger, less-open economy; the UK is smaller, more-open economy. (Be certain you can explain why/how. The last one is trickiest: it's precisely because macro-manipulation could be more effective in the US than it could be in the UK that might lead one to expect more-targeted electioneering, e.g. more using transfers than some macro-policy, in the UK than in the US. The others have to do with the relative concentration of the incentive and capacity to electioneer in the UK compared to the US.) On the flip side, the US has a more independent central bank than the UK (at least until very recently); the UK has endogenous election-timing, the US a fixed electoral calendar. These may lead you to expect the opposite, stronger/larger transfers cycles in the US than the UK (in both cases because incumbents in the UK have greater access to other possible tools, monetary policy or election-timing itself). NOTE: Again, explaining the logic of your answer is essential.

## Part II: Hibbs, *The American Political Economy*

1. What are the three striking differences in the postwar (1950-present,  $\pm$ ) compared to the pre-war

(1800-1935, ±) functioning of the macroeconomies of developed democracies?

**STRAIGHT FROM NOTES/LECTURE/TEXT:**

1. Better average growth, employment, unemployment (i.e., better aggregate or average real-side performance).
2. Greater real economic stability (growth stability; employment / unemployment stability) at the macro level and, part of same phenomena, greater individual security (lesser individual incidence of, risk of, and costs of real slumps, e.g. unemployment).
3. Persistent positive inflation or, same exact thing, general persistently upward trend in price level.

2. What four major policy or institutional shifts explain these three striking differences, how?

**STRAIGHT FROM NOTES/LECTURE/TEXT:**

1. Removal from gold standard (*permits* inflation).
2. Keynesian *automatic* stabilizers.
3. Keynesian *actively* countercyclical policies.
4. Monetary authority as "lender of last resort".

**BE SURE TO BE ABLE TO EXPLAIN EACH OF THESE MECHANISMS, WHAT THEY DID, & HOW THEN THE SET OF THESE EXPLAIN THE THREE OUTCOMES ABOVE.**

3. Historically, the unemployment accompanying recessions has been concentrated among the lower ends of the income and occupational hierarchies. This continues to be true, but the magnitude of the difference has been declining over time. Likewise, historically, only the wealthiest of the income distribution have experience much real-economic costs from inflation. This, too, continues to be true but the difference may also be diminishing as share-holdership has been spreading across more of the income distribution, although remaining a major source of income so far only for the wealthy. One observable real effect of inflation is its deleterious effect on real stock-returns. So, if all this is so, what sign do you expect for  $b_3$  in the following equation estimated from US quarterly data beginning in 1960 for 160 quarters (40 years):

$$UE = b_0 + b_1LEFT + b_2YEAR + b_3YEAR*LEFT + e$$

where

LEFT = 1 if a left-party (Democrat) controls the executive (is president) that quarter.

YEAR = a counter, that increases of time like so 1, 2, 3, 4, ...

YEAR\*DEM = the product of the variable DEM times the variable YEAR.

Explain your answer, both mathematically, and substantively in terms Hibbs' Partisan Theory.

**We discussed this fully in review session: Substantive description in question should lead you to expect smaller Hibbsean partisan**

effects/cycles as time passes. Need to be able to explain why you'd expect this given Hibbs theory and the question's substantive description. Then need to understand what coefficient sign or signs would reflect that in this model.  $dUE/dLEFT = b_1 + b_3 * YEAR$ , so ( $b_1$  being negative and)  $b_3$  being positive would reflect that the left reduced unemployment relative to the right but less so as time passed. Need to understand this too.

4. Suppose in 3 above, the researcher estimates this:

$$\begin{array}{l} UE = 3 \quad -6.0*LEFT \quad +0.0001*YEAR \quad +0.01*YEAR*LEFT \quad +e \\ \text{std errs:} \quad (2.0) \quad (0.005) \quad (0.005) \quad \quad \quad R^2=.65 \end{array}$$

Does the evidence here favor Hibbsian Partisan Theory? Is it reasonably strong evidence? What is the effect of a change in administration from Republican to Democrat in quarter number 40 (10 yrs from start of sample)? Pension and financial-market reforms such as those in the US over the 1980-2000 years have by-and-large not occurred in Spain. If a researcher estimated an equation like this in Spain, which coefficients would you change from these seen in the US? How and why?

Again, we discussed this fully in review session:

Yes support. Yes its strong-to-quite-strong. (Need to understand how one could conclude thusly from these estimates.)

$dUE/dLEFT$  given  $YEAR=40$  is  $-6.0 + .01*40 = -6.0 + .4 = -5.6$ . (Again, need to understand how I got this.)

As covered today, in fact, this suggests that the differences between societal groups in their relative distastes for unemployment and inflation will have diminished more in the US than in Spain, so we'd expect cycles to have shrunk less as time went on in Spain than they did in the US.

SEE YOU THURSDAY. AND, REMEMBER, IT'S CURVED AND YOU PROBABLY WILL NOT GET 100%, SO JUST RELAX, WORK YOUR HARDEST AND BEST, AND LEAVE IT AT THAT. GOOD LUCK!