PS 343: Mid-Term Exam, SAMPLE QUESTIONS

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.

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*.

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?

$$T = b_0 + b_1 ELE + e$$

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.

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.

Part II: Hibbs, *The American Political Economy*

1. What are the three striking differences in the postwar (1950-present, ±) compared to the pre-war (1800-1935, ±) functioning of the macroeconomies of developed democracies?

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

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):

$$UE = b_0 + b_1 LEFT + b_2 YEAR + b_3 YEAR*LEFT + e$$

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.

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

UE =	3	-6.0*LEFT	+0.0001*YEAR	+0.01*YEAR*LEFT	+e
std errs:		(2.0)	(0.005)	(0.005)	R^2=.65

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?