



**AMERICAN  
UNIVERSITY OF BEIRUT**

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**FACULTY OF ARTS & SCIENCES**

DEPARTMENT OF ECONOMICS  
SPRING 2024-2025

Economics 232/332  
Course Syllabus

## I General Course Information

**Course Number:** ECON 232/332

**Course Title:** Institutions and Politics in Macroeconomics

**Number of Credits:** 3 credits

**Course Level:** Undergraduate and graduate

**Course Format:** Lectures

**Pre-requisite Courses:** ECON 227

**Meeting Schedule:** Tuesdays and Thursdays from 12:30 pm - 1:45 pm

**Meeting Location:** Nicely Hall Room 202

## II Course Coordinator

**Name:** Nadine Yamout

**Office Location:** Ada Dodge Hall Room 237

**Office Hours:** Tuesdays and Thursdays 11:30 am - 12:30 pm or by appointment

**Extension:** +961 1 350000 Ext 4070

**Email:** [ny40@aub.edu.lb](mailto:ny40@aub.edu.lb)

You should feel free to contact me about any academic matter. I strongly encourage you, for efficiency reasons, that you make any enquiries about the subject material at lectures, during office hours or via the online discussion forum on Moodle. Email correspondence on administrative matters will generally be answered within 24 hours.

## III Course Description

How do politics and institutions affect economic outcomes? This question has been asked probably as long as people have been interested in economics itself. This course offers a comprehensive exploration of the intricate relationship between politics and economics within the macroeconomic context. It delves into the pivotal role played by political institutions and government policies in shaping a nation's economic prosperity and stability. Students will develop a profound understanding of how political decisions exert influence over key macroeconomic variables, including inflation, unemployment, and economic growth. This course equips students

with the analytical tools necessary to navigate the complexities of political economies. Major topics covered in this course include the impact of political institutions on economic policies, government's regulatory role, the influence of electoral cycles, the political economy of economic crises, globalization's effects, and the challenges of implementing economic reforms.

## IV Course Learning Outcomes

The course learning outcomes are what you will be able to do by the end of this course if you participate fully in learning activities and successfully complete the assessment items. Upon the successful completion of this course, you will be able to:

- CLO1. Assess how political choices influence critical macroeconomic factors, including inflation, unemployment, and economic growth;
- CLO2. Critically analyze the impact of political institutions on economic policies, including regulatory frameworks and policy cycles;
- CLO3. Examine the effects of globalization on political economies, exploring its implications for international economic relations and domestic economic decision-making;
- CLO4. Acquire the skills to analyze and evaluate the political economy of economic crises and assessing policy responses and their effectiveness in mitigating the effects of such crises;
- CLO5. Critically evaluate the challenges and opportunities associated with the implementation of economic reforms, considering their political, economic, and societal implications.

## V Program Learning Outcomes Addressed

The course addresses the following program learning outcomes:

- PLO3. Apply macroeconomic theory to interpret and address economic issues, including the evaluation of government policies and their impacts on society.
- PLO4. Source and analyse economic data using appropriate statistical, mathematical, and econometric techniques.
- PLO6. Communicate complex economic data and concepts in a manner that is accessible to a diverse audience.
- PLO7. Develop well-informed perspectives on economic policies while critically evaluating their implications across social, cultural, and institutional boundaries.

## VI Course Resources and References

The website for this course is on AUB Moodle at: <https://lms.aub.edu.lb/>

The textbook for this course is *Political Economy in Macroeconomics*, by Allan Drazen ISBN 978 – 0691092577. (AD)

The course will also draw on various journal articles and working papers. I will post copies of these articles and all other course material on Moodle.

**What is a Political Economy?**

- Clark, W. R., (1998). Agents and Structures: Two Views of Preferences, Two Views of Institutions. *International Studies Quarterly*, 42(2), 245-70.
- Acemoglu, D. (2005). Constitutions, Politics, and Economics: A Review Essay on Persson and Tabellini's *The Economic Effects of Constitutions*, *Journal of Economic Literature*, 43, 1025-1048.
- Dewan, T. & Shepsle, K. (2008). Review Article: Recent Economic Perspectives on Political Economy, Part I & II, *British Journal of Political Science* 38 (2008): 363-382 and 543-564.
- Besley, T. (2007). The new political economy. *The Economic Journal*, 117(524), F570-F587.

**Economic Models for Political Analysis**

- Caselli, F., & Morelli, M. (2004). Bad politicians. *Journal of public economics*, 88(3-4), 759-782.
- Manin, B., Przeworski, A., & Stokes, S. (1999). Elections and representation. *Democracy, accountability, and representation*, 2, 29.
- World Bank. (2016). *Making politics work for development: harnessing transparency and citizen engagement*. The World Bank.
- Kaskarelis, I. A. (2010). The principal-agent problem in economics and in politics. *Humanomics*, 26(4), 259-263.

**Decisionmaking Mechanisms**

- Budge, I. (2006). Direct and representative democracy: Are they necessarily opposed?. *Representation*, 42(1), 1-12.
- Dalton, R. J., Burkin, W., & Drummond, A. (2001). Public opinion and direct democracy. *J. Democracy*, 12, 141.
- Ruth, S. P., Welp, Y., & Whitehead, L. (2017). *Let the people rule? Direct democracy in the twenty-first century*. ECPR press.
- Holyoke, T. T. (2020). *Interest groups and lobbying: pursuing political interests in America*. Routledge.
- Heaney, M. T., & Leifeld, P. (2018). Contributions by interest groups to lobbying coalitions. *The Journal of Politics*, 80(2), 494-509.

**The Time-Consistency Problem**

- Fischer, S. (1980). Dynamic inconsistency, cooperation and the benevolent dissembling government. *Journal of economic dynamics and control*, 2, 93-107.
- Fischer, S. (1990). Rules versus Discretion in Monetary Policy. *Handbook of monetary economics*, 2, 1155-1184.
- Barro, R. J., & Gordon, D. B. (2019). A Positive Theory of Monetary Policy in a Natural Rate Model. *Credit and Capital Markets* *Kredit und Kapital*, 52(4), 505-526.
- Crain, W. M., & Tollison, R. D. (1993). Time inconsistency and fiscal policy: Empirical analysis of US States, 1969-89. *Journal of Public Economics*, 51(2), 153-159.

### **Laws, Institutions, and Delegated Authority**

- Rogoff, K. (1985). The optimal degree of commitment to an intermediate monetary target. *The quarterly journal of economics*, 100(4), 1169-1189.
- Svensson, L. E. (1995). Optimal inflation targets, conservative central banks, and linear inflation contracts.
- Wren-Lewis, S. (2013). Comparing the delegation of monetary and fiscal policy. *Restoring public debt sustainability: the role of independent fiscal institutions*, 54-74.
- Simons, H. C. (1936). Rules versus authorities in monetary policy. *Journal of political economy*, 44(1), 1-30.

### **Credibility and Reputation**

- Rogoff, K. (1992). Can International Monetary Policy Cooperation be Counterproductive?. In *International Economic Policies and their Theoretical Foundations* (pp. 874-892). Academic Press.
- Backus, D., & Driffill, J. (1985). Inflation and reputation. *The American Economic Review*, 75(3), 530-538.
- Vickers, J. (1986). Signalling in a model of monetary policy with incomplete information. *Oxford Economic Papers*, 38(3), 443-455.
- Drazen, A., & Masson, P. R. (1994). Credibility of policies versus credibility of policymakers. *The Quarterly Journal of Economics*, 109(3), 735-754.
- Stein, J. C. (1989). Cheap talk and the Fed: A theory of imprecise policy announcements. *The American Economic Review*, 32-42.

### **Elections and Changes in Policymakers**

- Plott, C. R. (1967). A notion of equilibrium and its possibility under majority rule. *The American Economic Review*, 57(4), 787-806.
- Persson, T., Roland, G., & Tabellini, G. (2003). How do electoral rules shape party structures, government coalitions, and economic policies?.
- Ferejohn, J. (1986). Incumbent performance and electoral control. *Public choice*, 5-25.
- Nordhaus, W. D. (1975). The political business cycle. *The review of economic studies*, 42(2), 169-190.
- Brender, A., & Drazen, A. (2003). Where does the political budget cycle really come from?. Available at SSRN 462820.

### **The International Economy**

- Giavazzi, F., & Pagano, M. (1988). The advantage of tying one's hands: EMS discipline and central bank credibility. *European economic review*, 32(5), 1055-1075.
- Obstfeld, M. (1996). Models of currency crises with self-fulfilling features. *European economic review*, 40(3-5), 1037-1047.
- Grilli, V., & Milesi-Ferretti, G. M. (1995). Economic effects and structural determinants of capital controls. *Staff Papers*, 42(3), 517-551.
- Bulow, J. I., & Rogoff, K. S. (1988). Sovereign debt: Is to forgive to forget?.
- Boone, P. (1996). Politics and the effectiveness of foreign aid. *European economic review*, 40(2), 289-329.

**Factor Accumulation and Growth**

- Persson, T., & Tabellini, G. (1991). Is inequality harmful for growth? Theory and evidence.
- Benabou, R. (1996). Inequality and growth. NBER macroeconomics annual, 11, 11-74.
- Saint-Paul, G., & Verdier, T. (1993). Education, democracy and growth. Journal of development Economics, 42(2), 399-407.
- Perotti, R. (1996). Growth, income distribution, and democracy: What the data say. Journal of Economic growth, 1, 149-187.
- Acemoglu, D., Johnson, S., & Robinson, J. A. (2002). Reversal of fortune: Geography and institutions in the making of the modern world income distribution. The Quarterly Journal of Economics, 117(4), 1231-1294.

**Inaction, Delay and Crisis**

- Rodrik, D. (2018). Understanding economic policy reform. In Modern Political Economy and Latin America (pp. 59-70). Routledge.
- Fernandez, R., & Rodrik, D. (1991). Resistance to reform: Status quo bias in the presence of individual-specific uncertainty. The American economic review, 1146-1155.
- Alesina, A. F., & Drazen, A. (1989). Why are stabilizations delayed?.
- Velasco, A. (1997). A model of endogenous fiscal deficits and delayed fiscal reforms.
- Drazen, A., & Easterly, W. (2001). Do crises induce reform? Simple empirical tests of conventional wisdom. Economics & Politics, 13(2), 129-157.

## VII Course Outline

Week	Date	Topic	Learning Activities	Alignment with CLOs
0	Tues. 14/01/2025 Thurs. 16/01/2025	Introduction to the Course		CLO1
1	Tues. 21/01/2025 Thurs. 23/01/2025	What is a Political Economy?		CLO1
2	Tues. 28/01/2025 Thurs. 30/01/2025	Economic Models for Political Analysis		CLO1, CLO2
3	Tues. 04/02/2025 Thurs. 06/02/2025	Economic Models for Political Analysis		CLO1, CLO2
4	Tues. 11/02/2025 Thurs. 13/02/2025	Decisionmaking Mechanisms		CLO1, CLO2
5	Tues. 18/02/2025 Thurs. 20/02/2025	The Time-Consistency Problem		CLO1, CLO2
6	Tues. 25/02/2025 Thurs. 27/02/2025	Laws, Institutions, and Delegated Authority		CLO1, CLO2
7	Tues. 04/03/2025 Thurs. 06/03/2025	Credibility and Reputation		CLO1, CLO2
8	Tues. 11/03/2025 Thurs. 13/03/2025	Midterm Exam	60 minutes exam	CLO1, CLO2
9	Tues. 18/03/2025 Thurs. 20/03/2025	Elections and Changes of Policymakers	First video	CLO1, CLO2, CLO3
10	Tues. 25/03/2025 Thurs. 27/03/2025	Guest Lecture - Professor Layna Mosley		CLO3, CLO5
11	Tues. 01/04/2025 Thurs. 03/04/2025	The International Economy		CLO3, CLO5
12	Tues. 08/04/2025 Thurs. 10/04/2025	The International Economy	Peer review	CLO3, CLO5
13	Tues. 15/04/2025 Thurs. 17/04/2025	Factor Accumulation and Growth		CLO1, CLO2, CLO4
14	Tues. 22/04/2025 Thurs. 24/04/2025	Inaction, Delay, and Crisis	Second video	CLO1, CLO2, CLO4

### Learning and Teaching Approach

The examinable content of the course is defined by the references given in the course schedule and the content of lectures.

#### Lectures:

Our textbook is *Political Economy in Macroeconomics*, by Allan Drazen. We shall cover one or two topics each week (see details below), and complement the material with some examples and applications in class. You are expected to read the relevant sections of the textbook before the lecture.

#### Additional Readings:

In addition to the core textbook, I will provide you with a selection of supplementary readings for each topic we cover. These additional readings will offer diverse perspectives, deeper insights, and current research findings related to the subject matter. While not mandatory, I strongly recommend that you explore these supplementary materials. Engaging with these resources will not only enhance your comprehension of the material but also foster a more well-rounded understanding of the topics covered.

### **Out-of-Class Study:**

While you may have preferred individual learning strategies, it is important to note that most learning will be achieved outside of class time. Lectures can only provide a structure to assist your study as the lecture time is limited. An “ideal” strategy (on which the provision of the course materials is based) might include:

- reading of the relevant chapter(s) of the textbook before the lecture. This will give you a general idea of the topic area.
- attendance at lectures. Here the context of the topic in the course and the important elements of the topic are identified. The relevance of the topic is also explained.
- organizing study groups to review material and practice theoretical models.

## **VIII Grading Criteria**

<b>Type of Evaluation</b>	<b>Percentage</b>	<b>Length</b>	<b>Due Date</b>
Group Video Project	25%	~ 20 minutes	Multiple weeks (refer to course schedule)
Midterm Exam	30%	60 minutes	Thursday, 13 March 2025
Final Exam	45%	120 minutes	University exam period

### **Group Video Project:**

In this collaborative project, students will form groups of three to explore an assigned topic at the intersection of macroeconomics and politics. The project involves the creation of a video presentation accompanied by slides, wherein the chosen topic is thoroughly discussed and explained. Subsequently, each group will be tasked with viewing videos from two other groups, offering constructive feedback, and posing relevant questions. Following this initial phase, groups will produce a second video that addresses the feedback received and responds comprehensively to the questions raised by their peers. All project submissions, including both the initial video and the response video, are required by 11:59 pm on their respective due dates.

### **Midterm Exam:**

A 60 minutes midterm exam is scheduled for Thursday 13 March 2025 (Week 8) during class time. The exam is worth 30% of your final course grade and will cover material from Weeks 1-6. Anything covered in the lectures is examinable.

### **Final Exam:**

A 120 minutes final exam is scheduled during the university exam period. The exam is worth 45% of your final course grade and will cover material from the whole course, although focusing mostly on material since the midterm exam. Anything covered in the lectures is examinable.

## IX Course Policies

### Attendance Policy

Attendance is expected for all lectures and absences should be kept to a minimum. Students who miss more than one-fifth of the sessions of any course prior to the withdrawal deadline can be withdrawn from the course by the instructor.

You are highly encouraged to attend the lectures and participate in discussions in class. You must be present during specific lectures for the group presentations.

### Credit Hour Policy

This course follows AUB Credit Hour Policy for three-credit courses. This course meets twice weekly for 3 academic hours per week.

### Final Examination

Please note that students are expected to be on-campus and available to take a final examination for any of their courses at anytime during the final examination period. For the current term, the final examination period runs between 02/05/2025 and 14/05/2025. Students and professors will be notified of the final examination schedule being posted on the [Office of the Registrar](#) website as soon as feasible after the change of schedule period (drop and add).

### Makeup Policy

If you experience short-term circumstances beyond your control, such as illness, injury or misadventure which do not enable you to sit for the exams please let me know. You would need to present a valid medical excuse from AUBMC or the AUB infirmary. Any other excuse is NOT valid. If no valid excuse is presented, you will receive a grade of zero on the missed exam.

Note that there will be no makeup midterm exam. If you miss the midterm exam AND have a valid excuse, the final course grade will be based on your grades in the assignments, group presentation and final exam.

### Group Work

I strongly recommend that students form study groups with other people. One of the main reasons why I included the group project as part of the course assessments is precisely the fact that you get to work on economics problems with other people, you discuss with them, and learn from the intuition of others.

### Policy on Personal Computers/Tablet:

You are welcome to bring your own laptop or tablet to class. The use of such devices should be restricted to taking notes and to course-related activities.

## X University Rules and Regulations:

### General Academic Information

- [Undergraduate Academic Information](#)
- [Graduate Academic Information](#)

### University - Course Withdrawal Policy

A student can withdraw from only one required course per semester. Students who wish to withdraw from more than one required course in any given semester must petition the appropriate faculty committee for permission to do so.

Check Withdrawal Information from [undergraduate](#) and [graduate](#) catalogue.

**Academic Integrity (cheating and plagiarism)**

Please refer to [AUB Student Code of Conduct](#), in particular section 1.1, which concerns academic misconduct including cheating, plagiarism, in-class disruption, and dishonesty. Please be aware that misconduct is vigorously prosecuted and that AUB has a zero tolerance policy. Course policy is that credible evidence of cheating will result in course failure.

**Accessibility Statement to Acknowledge the Unique Learning Needs of Students with Disabilities**

AUB strives to make learning experiences as accessible as possible. If you anticipate or experience academic barriers due to a diagnosed disability (including learning disability, mental health, chronic or temporary medical conditions), please contact the [Accessible Education Office](#) as soon as possible in order to help establish reasonable accommodations and facilitate a smooth learning process: [accessibility@aub.edu.lb](mailto:accessibility@aub.edu.lb); +961-1-350000, x3151; West Hall, 338.

**Non-Discrimination and Title IX Statement**

In line with its commitment to the principle of equal opportunity in education and employment, AUB policies protect you from discrimination on the basis of protected characteristics, including discriminatory harassment and sexual harassment. Protected characteristics include: race, color, religion, age, national or ethnic identity, sex, gender or gender identity, sexual orientation, pregnancy, marital status, disability, genetic predisposition or carrier status, alienage or citizenship status, and political affiliation.

The policies are applicable to all the AUB Community including: officers, faculty, staff, academic appointees, students (including medical interns and residents), visiting students, alumni, trainees, visitors, contractors, subcontractors, suppliers, located on campus and at AUB Medical Center, Advancing Research Enabling Communities Center (AREC), or any other facility or program affiliated with the University. The AUB community also includes the dependents and domestic employees of faculty and staff dwelling on campus and at AREC.

If you think you have experienced discrimination, discriminatory harassment, or sexual harassment, we encourage you to inform the Equity/Title IX Coordinator, Mitra Tauk at 01-350000 ext. 2514, [titleix@aub.edu.lb](mailto:titleix@aub.edu.lb), report to a Title IX deputy at your faculty or at any other faculty ([www.aub.edu.lb/titleix](http://www.aub.edu.lb/titleix)), or report online ([www.aub.ethicspoint.com](http://www.aub.ethicspoint.com)). Reports may be submitted anonymously or not. Please know that the University will maintain the confidentiality of the complaint and privacy of the persons involved to the greatest extent possible, consistent with its goal of conducting a thorough and complete investigation and to the extent permitted by law.

You need to also know that the University has designated academic and administrative department/unit heads, managerial level staff, academic advisors, protection officers, and residence hall staff/monitors, as responsible employees or mandatory reporters, and may designate others at its discretion. These individuals are obligated to report actual or suspected discrimination or discriminatory harassing conduct to the Equity/Title IX Coordinator, unless they are a confidential resource. The following have been designated as confidential resources: on campus counselors in the Counseling Center of the Office of Student Affairs and AUB Medical Center counselors, and healthcare providers at the University Health Services (UHS) and at the AUB Medical Center. Confidential resources are not required to report actual or suspected discrimination or harassment to appropriate university officials, except in cases of suspected abuse of a minor, in the event of an external investigation or prosecution, or in the event of imminent danger to the reporting party or others.

## XI AUB Grading System

<https://www.aub.edu.lb/Registrar/Pages/academic-information.aspx>

### Numeric Course Grade to Letter Course Grade

Starting with Numeric Course Grade /100	Corresponding Course Letter Grade
< 60	F
60	D
61-62	D+
63-65	C-
66-68	C
69-71	C+
72-74	B-
75-78	B
79-82	B+
83-86	A-
87-92	A
93-100	A+

### Grade Conversion Chart

Course Letter Grade	Quality Points
A+	4.3
A	4.0
A-	3.7
B+	3.3
B	3.0
B-	2.7
C+	2.3
C	2.0
C-	1.7
D+	1.3
D	1.0
F	0.0

Note: The GPA at AUB is capped at 4.0

I	P	PR	W	NP
Incomplete	Pass	In Progress	Withdraw	No Pass

## Course Schedule

Week	Date	Topic	Readings	Assessments
0	Tues. 14/01/2025			
	Thurs. 16/01/2025	Introduction to the Course		
1	Tues. 21/01/2025	What is a Political Economy?	AD, Ch. 1	
	Thurs. 23/01/2025			
2	Tues. 28/01/2025			
	Thurs. 30/02/2025	Economic Models for Political Analysis	AD, Ch. 2	
3	Tues. 04/02/2025	Economic Models for Political Analysis (Cont.)	AD, Ch. 2	
	Thurs. 06/02/2025			
4	Tues. 11/02/2025	Decisionmaking Mechanisms	AD, Ch. 3	
	Thurs. 13/02/2025			
5	Tues. 18/02/2025	The Time-Consistency Problem	AD, Ch. 4	
	Thurs. 20/02/2025			
6	Tues. 25/02/2025	Laws, Institutions, and Delegated Authority	AD, Ch. 5	
	Thurs. 27/02/2025			
7	Tues. 04/03/2025	Credibility and Reputation	AD, Ch. 6	
	Thurs. 06/03/2025			
8	Tues. 11/03/2025	Revision and Q&A for Midterm Exam		
	Thurs. 13/03/2025	Midterm Exam		60 minutes exam
9	Tues. 18/03/2025	Elections and Changes of Policymakers	AD, Ch. 7	
	Thurs. 20/03/2025			First video due
10	Tues. 25/03/2025			
	Thurs. 27/03/2025	Guest Lecture - Professor Layna Mosley		

Week	Date	Topic	Readings	Assessments
11	Tues. 01/04/2025			
	Thurs. 03/04/2025	The International Economy	AD, Ch. 12	
12	Tues. 08/04/2025	The International Economy (Cont.)	AD, Ch. 12	Peer review due
	Thurs. 10/04/2025			
13	Tues. 15/04/2025	Factor Accumulation and Growth	AD, Ch. 11	
	Thurs. 17/04/2025			
14	Tues. 22/04/2025			
	Thurs. 24/04/2025	Inaction, Delay, and Crisis	AD, Ch. 10	Second video due
Reading Period	28/04/2025 - 01/05/2025			
Exam Period	02/05/2025 - 14/05/2025	Final exam		120 minutes exam