

Political Economy in Overlapping Generations Models

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MSc in Economics, Winter Semester 2023/24

Outline

What are the consequences of demographic change for the sustainability of pension systems and the pattern of fiscal policy? What are the preferences of different age groups for the conduct of monetary policy? How does the generational conflict about climate action shape environmental policy? To address questions along these lines, this seminar will analyze the macroeconomic dynamics of overlapping generations models when public policy is the result of a politico-economic process. We will examine the theoretical underpinnings of the interplay between macroeconomic aggregates and political decision making as well as the empirical implications deriving from there. Applications include social security, public debt and spending, inflation, education and environmental policy. Beyond that, students are welcome to suggest their own topics, provided they align with the overall theme of the seminar.

Organizational details

Students have to sign up for this seminar during the period June 27 - July 04, 2023 via ZEuS. Students who have received a slot in the seminar should send a preference ranking of at least 5 papers/topics (in addition to the topics listed below, own ideas are welcome, too) to stefan.niemann@uni-konstanz.de. Topics are then allocated on a 'first come, first served' basis.

The seminar will be held as a block seminar on December 15 and 16, 2023 (compulsory attendance, room TBA). We will first convene for a kick-off meeting on October 23, 2023 (11:45 - 13:15) to discuss details (compulsory attendance, room TBA). Participants have to hand in their seminar paper by February 12, 2024 (or earlier) as a digital file.

Assessment

The seminar grade is based on a presentation (30-40 minutes, 35 %), participation during seminar discussions (5 %) and a seminar paper (15-20 pages, 60 %). The main objective is to be able to understand and summarize the assigned paper, as well as to critically evaluate it, identify its place in the related literature and, when applicable, give an assessment based

on pertinent empirical data. Further details will be announced during the kick-off meeting. Participation during both the kick-off meeting and the block seminar sessions is mandatory.

Dates

- Registration: 27.06.2023 - 04.07.2023 via ZEuS.
- Kick-off meeting: 23.10.2023, 11:45 - 13:15, room TBA.
- Seminar presentations: 15. and 16.12.2023.
- Seminar paper due: 12.02.2024, 12:00 pm, in digital format via email to stefan.niemann@uni-konstanz.de.

Literature and topics

Introductory and background reading, detailing the conceptual framework for many of the individual papers:

Persson, T. and G. Tabellini (2000) "Political economics: Explaining economic policy", *MIT Press*.

Main reference for the individual topics are the following papers. Starting from there, students should identify further relevant literature and data, in particular for the seminar paper.

1. Social security

- (a) Gonzalez-Eiras and Niepelt (2008)
- (b) Gonzalez-Eiras and Niepelt (2012)
- (c) Song (2011)

2. Public debt and spending

- (a) Song, Storesletten and Zilibotti (2014)
- (b) Müller, Storesletten and Zilibotti (2016)
- (c) Arai, Naito and Ono (2018)

3. Inflation

- (a) Bullard, Garriga and Waller (2012)
- (b) Katagiri, Konishi and Ueda (2020)

4. Education

- (a) Lancia and Russo (2016)

(b) Rauh (2017)

5. Environmental policy

(a) Karp and Rezai (2014)

(b) Habla and Roeder (2017)

References

- Arai, R., K. Naito and T. Ono** (2018) "Intergenerational policies, public debt, and economic growth: A politico-economic analysis", *Journal of Public Economics* 166, 39-52.
- Bullard, J., C. Garriga and C. Waller** (2012) "Demographics, redistribution, and optimal inflation", *Federal Reserve Bank of St. Louis Review*, 419-440.
- Gonzalez-Eiras, M. and D. Niepelt** (2008) "The future of social security", *Journal of Monetary Economics* 55, 197-218.
- Gonzalez-Eiras, M. and D. Niepelt** (2012) "Ageing, government budgets, retirement, and growth", *European Economic Review* 56, 97-115.
- Habla, W. and K. Roeder** (2017) "The political economy of mitigation and adaptation", *European Economic Review* 92, 239-257.
- Karp, L. and A. Rezai** (2014) "The political economy of environmental policy with overlapping generations", *International Economic Review* 55, 711-733.
- Katagiri, M., H. Konishi and K. Ueda** (2020) "Aging and deflation from a fiscal perspective", *Journal of Monetary Economics* 111, 1-15.
- Lancia, F. and A. Russo** (2016) "Public education and pensions in democracy: A political economy theory", *Journal of the European Economic Association* 14, 1038-1073.
- Müller, A., K. Storesletten and F. Zilibotti** (2016) "The political color of fiscal responsibility", *Journal of the European Economic Association* 14, 252-302.
- Rauh, C.** (2017) "Voting, education, and the Great Gatsby Curve", *Journal of Public Economics* 146, 1-14.
- Song, Z.** (2011) "The dynamics of inequality and social security in general equilibrium", *Review of Economic Dynamics* 14, 613-635.
- Song, Z., K. Storesletten and F. Zilibotti** (2014) "Rotten parents and disciplined children: A politico-economic theory of public expenditure and debt", *Econometrica* 80, 2785-2803.