Adam Smith Prof.   Final Exam   Spring 2006
R. Congleton   **Political Economy of Public Policy**   Bayreuth U

1. (25 pts, 1-4 sentences each) Identify and Define the following:

    A. Median Voter
    B. Rational ignorance
    C. Cyclic majority
    D. Pareto optimal
    E. Niskanen model

2. (30 points) Use a median voter model to analyze social security programs--e.g. public retirement programs. Assume that their are just three kinds of voters (young, middle aged, and old) and that the marginal benefit curves for typical young, middle aged, and old voters are different. Also assume that the marginal tax cost is higher for young voters than for middle aged voters, and that the marginal tax cost for older voters is zero.

    A. (10 pts) Characterize the optimal benefit level for the median voter, and explain the logic of your diagram(s).
    B. (5 pts) Why does the median voter not "give" more to the retired persons than this amount?
    C. (5 pts) How would an increase in the median voter's age affect the size of program benefits? (Which curves in part A shifts? Explain.)
    D. (5 pts) How would an increase in the number of retired persons--other things being equal--affect the median voter's preferred average benefit level?
    E. (5 pts) In what sense, if any, can the median voter be said to adopt overly generous public pension programs?

3. (25 points) In a pure electoral model of democratic politics, interest groups can only influence public policies through persuasion, and the groups most likely to be persuasive will be those that have the most resources--other things being equal.

    A. (5 points) Use marginal cost and marginal benefit curves to characterize an individuals interest in donating time and money to an interest group.
    B. (5 points) Explain how the curves in your diagram are affected by the "effectiveness" of such groups, that is to say how likely they are to influence voter opinion on the policies of interest.
    C. (10 points) Use a prisoners-dilemma type of diagram to illustrate the free rider problem of political interest group activity emphasized by Mancur Olson.
    D. (25 points) Given C, B, and A, what kinds of groups are most likely to successfully organize? Explain briefly.

4. (20 points) In rent seeking contests, resources are devoted to "games" in which resources are consumed through a process of conflict.

    A. (5 points) In many cases, the resources invested in the game can be said to be wasted. Why?
    B. (10 points) Gordon Tullocks model of rent-seeking can be used to demonstrate that losses from ordinary economic policies adopted to advance the interests of interest groups tend to be larger than most purely economic models suggest, interest group politics. Illustrate the losses associated with contests to secure monopoly privileges. (Label all important details and briefly describe the logic of your diagram.)
    C. (5 points) Briefly discuss ways in which democratic politics (elections) can adopt procedures and other rules that reduce the deadweight losses from rent seeking.

Answers to all the questions require only a few sentences to answer completely. The finished exam **should be e-mailed** to Professor Congleton at congleto@gmu.edu with the header "PC Exam" in pdf or doc form by class time next week. Be sure to include your name and student number.