

# Political Economy

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# Political Economy

- **Political economy** encompasses a variety of approaches to social behavior
- Macro political economy investigates associations between political activities and substantive performance of an economy
- A micro political economy approach focuses on the processes that influence, motivate, and constrain the choices of individual political actors
- How political institutions, political environment and economic system influence each other
- International political economy studies the economic impacts of international relations

# Macro Political Economy

- Macro political economy investigates associations between political activities and substantive performance of an economy
- Macroeconomic numbers such as gross national product (GNP), gross domestic product (GDP), national debt and deficit, inflation, unemployment, exchange rates, size of the public sector, balance of trade, central bank interest rates, investment, money supply, and productivity describe the state of the national political economy, all supplying information about a nation's aggregate welfare

- We use such descriptive characteristics to infer how well or poorly governments are performing in managing their economies, and what areas governments and societies need to target for improvement
- From a macro political economic perspective, these descriptions can serve as dependent variables that are influenced by government policy choices, or they can be considered as independent variables that motivate and influence a government's choice of policies

- In either case, the substantive questions revolve around the nexus of government and economic behavior: How do government actions affect the state of the economy, or how does the state of the economy affect government actions?

# Micro Political Economy

- The micro political economy approach focuses on the processes that influence, motivate, and constrain the choices of individual political actors
- In this approach, political economy describes the processes of choice that lead to government policies and to social, economic, and political outcomes. This approach seeks to investigate and construct the *micro* foundations of *macro* outcomes

- Individual choices aggregate to produce macro outcomes, but we need to understand why individuals make the choices they make if we are to understand and thus be able to influence broader social outcomes in the world

# THREE CORE ASSUMPTIONS WITHIN THE MICRO POLITICAL ECONOMY APPROACH

- First, *we live in a world of scarce resources*
- Second, *political actors seek to survive*
- Third, *decision makers act as if they are rational*

# Scarcity

- Scarcity is a key assumption, as it generates the conditions for competition, cooperation, and conflict over the distribution of resources and opportunities
- In a world of plenty—a world absent scarcity— men and women could consume whatever they want, whenever they want, without impinging on the choices of others. No competition or conflict over the distribution of resources would exist, nor would there be a need for compromise or cooperation to overcome barriers to the distribution or allocation of resources

- Unfortunately, we do not live in such a garden of unlimited resources. All items we consume—those produced by humans and those produced by nature—exist in some finite amount, regardless of the demand for those items
- Scarcity creates the conditions for politics, which is a use of coercive means to determine the rules of social, political, and economic exchange, to allocate resources, to divide the proverbial pie, and to decide who gets what, why, and how

# Political Survival

- political actors and governments want to survive—to stay in office and in power—and will act to survive
- In democratic electoral systems, these actors work to enhance their prospects for reelection
- In less democratic systems, political actors may instead work to build constituencies among those groups that can protect them, such as the military or select segments of society

- We call the group essential to a political actor's survival the *selectorate*
- A politician who finds his policy preferences in conflict with his ability to survive faces difficult choices and trade-offs. Such conflict is very common, and it underpins much of the cynicism about politics that is generated when politicians seem to compromise their policy preferences in order to stay in office

# Rationality

- People behave and make choices *as if* they are rational
- Preferences are ordered in terms of self-interest
- Self-interest assumes that individuals will select choices by seeking to improve their utility, or expected satisfaction

# International Political Economy

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