

## Index

- accountability
  - accountability functions, 93, 150, 152
  - and information, 156–7
  - and representation, 148–9
  - general model of, 149–53
- adverse selection, 73–4, 206–9
- allocation mechanisms, 1
  - centralized, 7–9, 80
  - decentralized, 2–3, 80
- autonomous authorities
  - origins of, 143
  - rationale for, 144
- checks and balances, 137–46
- clientilism (also nepotism, prebendalism), 129, 135
- Coase theorem, 39
- command optimum, 7
- courts
  - and the rule of law, 140–3
- credibility, 2
  - and time inconsistency, 105–8, 199–202
- deadweight loss
  - of monopolies, 29
  - of taxation, 194
- delegation, 95–6, 129
- democracy
  - and bureaucracy, 128, 145–6
  - and efficiency, 199–202
  - and representation, 148–9
  - and use of coercion, 81
  - epistemic role of, 82
- economic growth
  - mechanics of, 162–4
  - optimal, 164–7
  - politics of, 170–7
    - Benabou’s framework, 171–7
    - maximum politically sustainable growth rate, 175
- Edgeworth box
  - for Walrasian markets, 26
  - for optimal contracts, 68, 72
- efficiency, 2
  - and democracy, 199–202
  - in the sense of Pareto (*see* Pareto efficiency)
  - of Walrasian markets (*see* first theorem of welfare economics)
  - of incomplete markets, 42, 46–9
    - and rational expectations, 49–50
  - of optimal contracts
    - under asymmetric information, 74
    - under symmetric information, 69
  - of voluntary insurance schemes, 209
- equality, 5
  - and efficiency, 53, 185
  - of opportunity, 5–6
  - of outcomes, 5
  - societal preferences for, 184–5
- equilibria, 3
  - asymmetric Nash (Stackelberg), 96–8
  - in incomplete markets, 46, 50–2
  - pooling and separating, 73, 151–2, 209
- externalities, 35–8
  - in incomplete markets, 45, 48
- first theorem of welfare economics, 25
- information (*see* under respective entries)
  - and rational ignorance, 110

222 **Index**

- insurance, 14, 67–9, 205–6  
 endogenous provision of, 209–12  
 general model of, 206–9
- majority (Condorcet) winner, *see* voting  
 majority rule  
 and checks and balances, 130, 137–43  
 and the rule of law, 140–3  
 and independent authorities, 143–5
- marginal rate of substitution, 20–22  
 between consumption and leisure, 24–25  
 between present and future consumption, 25
- markets  
 competitive, definition of, 22  
 complete, definition of, 25–26  
 incomplete, 42–54  
 Walrasian, 20–28, 40
- market failures, 28–41  
 and political failures, 201  
 externalities (*see also* externalities), 35–38  
 definition of, 35  
 increasing returns to scale, 28–30  
 definition of, 28  
 public goods (*see also* public goods), 30–35  
 definition of, 30
- market failures theory of the state, 40
- maximin criterion, 6, 183
- maximization, 1  
 constrained, 33–4  
 of utility, 22
- money and politics, 120–2
- moral hazard, 14, 44, 70–2  
 of the principal, 105–8
- natural monopolies (*see* increasing returns to scale)
- objectives of rulers, 85–8, 129, 148
- oversight, 96, 98, 130–4  
 and implementation coalitions, 139  
 as a principal-agent problem, 133–4  
 bureaucratic control, 132–3  
 managerial control, 133  
 in private compared to public sector, 130–2
- Pareto efficiency  
 definition of, 3  
 constrained, 47, 202  
 definition of, 46–7  
 Pareto superiority, 4
- political economy  
 classical and modern, 213–4  
 subject of, 11
- political parties  
 and accountability, 155  
 and oversight, 134–7
- political-economic equilibria, 10–14, 96–8
- preference relations, 1
- prices  
 informational role of, 23–4, 49
- principal-agent framework, 55–75  
 and risk postures, 58–61, 67–9  
 assumptions of, 55–8  
 incentive compatibility constraint, 64  
 optimal contracts  
 under symmetric information, 64–9  
 under asymmetric information, 69–74  
 participation (individual rationality) constraint, 62
- production possibility set, 51–2
- public goods, 30–5  
 and collective action problems, 33  
 and excludability, 31–2, 35  
 and incomplete markets, 45  
 definition of, 30  
 optimal provision of (Samuelson's condition), 34
- regulation, 99–127  
 and competing interests, 117–20  
 according to Grossman and Helpman, 118–9  
 according to Laffont and Tirole, 117–8  
 and moral hazard of the principal, 105–8  
 and regulatory capture according to Laffont and Tirole  
 endogenous, 108–17  
 and rent seeking (Virginia school), 112–3  
 Becker's model, 111–2  
 Peltman's model, 108–11  
 general model of, 102–5, 122–7  
 paradox of according to Spiller, 106
- rents, 88, 112, 150  
 technologies of rent extraction, 88–92
- representation, 94–5  
 and accountability, 148
- risk aversion  
 definition of, 58  
 constant relative risk aversion utility function, 58–9
- second theorem of welfare economics, 52
- single crossing property, 193

## Index

223

- social welfare functions, 4, 183
  - utilitarian, 5, 182
- structures of interest, 82–5
- the state, 11
  - and coercion, 81–5
  - and economic growth, 167–70
    - Barro’s model, 168–70, 177–80
  - and insurance, 13–14, 206, 209–12
  - and redistribution, 192–202
  - as a centralized mechanism, 7–10
  - forms of, 85–94
  - structure of, 94–8, 137–45
- transaction costs, 38–9
  - and market failures, 3–39
  - definitions of, 38
- utility, 1, 20
  - interpersonal comparisons of, 5, 183
  - utility functions, 5
    - additively separable, 59
    - constant relative risk aversion (CRRA), 58–9
  - indifference map representation of, 20–1
  - indirect, 186
  - quasi-concave, 187
- voting
  - and party competition, 187–92
    - adaptive learning model, 191
    - citizen-candidate model, 191, 200
    - conditions for platforms to converge, 190
    - in multidimensional spaces, 190–2
    - party unity Nash equilibrium, 191
  - in committees, 186–7
  - median voter theorem, 187
  - on redistributions, 192–9
    - average member Nash equilibrium, 195–6
    - median voter theorem applied to, 193
- welfare state
  - and efficiency, 206
  - and militarism, 206
  - and insurance, 205–9
  - and solidarity, 203–4