

Markov Perfect Political Equilibrium with Social Security: The Role of Education Cost*

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Abstract

This paper focuses on how education costs affect the political determination of public policy via individual decision-making. The paper extends the model in Hassler, Storesletten, and Zilibotti (2007, *Journal of Economic Theory*; henceforth HSZ) by generalizing the cost function of education and considers several cases, along with HSZ as a special case. In cases where education cost is high, the characterization of political equilibrium is similar to HSZ. In cases where education cost is low, the characterization is entirely different from HSZ: namely, a political equilibrium exists where (i) the rich are always politically decisive and (ii) the equilibrium outcome is unique.

Keywords: Markov perfect equilibrium; Dynamic political economy; Public policy; Education cost

JEL Classification: D72; D78; E62; H41; H53

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