Buying Votes: Examining Tufte's Political Business Cycle Under an Adaptive Expectations Framework

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BUYING VOTES: EXAMINING TUFTE'S POLITICAL BUSINESS CYCLE
UNDER AN ADAPTIVE EXPECTATIONS FRAMEWORK

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This paper addresses the extent to which presidents and their parties have been able to exert influence over economic variables in the months preceding a general election. Much of the existing literature suggests that there may be an important cyclical pattern between the four-year election cycle and economic variables such as real GDP growth and real disposable income. Using data from the Council of Economic Advisors and the American National Election Study, this paper finds moderate evidence for the existence of a political business cycle. Subsequent analysis reveals that during elections with significantly high and low GDP growth rates, election results can be perfectly predicted based on the theoretical model. Additionally, during a severe recession, the major election issue will always be the economy.