

Norman Schofield · Gonzalo Caballero · Daniel Kselman *Editors*

Advances in Political Economy

Institutions, Modelling and Empirical Analysis

This book presents latest research in the field of Political Economy, dealing with the integration of economics and politics and the way institutions affect social decisions. The focus is on innovative topics such as an institutional analysis based on case studies; the influence of activists on political decisions; new techniques for analyzing elections, involving game theory and empirical methods.

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Table 2 Percentages of respondents with nonseparable preferences. Source: 2004 panel survey of nonseparable preferences

Issue	Conditional on	Ideological moderates	Ideological non-moderates
Taxes	Education spending	59.5 %	48.5 %
Education spending	Taxes	54.8	47.1
Medicare spending	Defense spending	40.1	31.7
Defense spending	Medicare spending	37.1	32.8
Immigration	National health care	24.2	26.0
Free Trade	Privatize Social Security	23.9	23.0
National health care	Immigration	19.1	16.7
Assault weapons ban	Background checks	13.0	14.2
Privatize Social Security	Free Trade	11.5	8.0
Adoption	Marriage	9.0	8.6
Marriage	Adoption	7.5	2.4
Background Checks	Assault weapons ban	3.0	3.3

Voter 2, for instance, has an ideal point on issue *X* that makes him the median voter on *X*. But when issue *Y* is introduced, he supports candidate *B*'s extreme position on *X*. Even though voter 2's ideal point may be moderate on *X*, his induced ideal point given the constraints of the options before him—candidate positions *A* and *B*'—is extreme. Debates about whether voters are extreme or moderate, polarized or centrist, are based on interpreting the distribution of voter ideal points issue by issue (Fiorina 2005; Abramowitz 2010). We need more information about voter preferences across issues to draw conclusions about whether voters are moderate or extreme. Nonseparable preferences may make moderate voters appear extremist or extremist voters appear moderate depending on the constraints imposed by other issues or the candidates' positions.

5 Conclusion

As E.E. Schattschneider wrote, "Political strategy deals... with the inclusion and exclusion of contestants because it is never true that the balance remains the same if the number is changed" (1957, 941). The same may be said of political issues as contestants. Changing the issues can tip the balance of a close election. We already know that moving from one issue to multiple issues fundamentally alters the nature of elections. As we show in this chapter, moving to a multi-dimensional issue space can be a strategic choice in an election. Introducing new issues may be a candidate's only hope of unseating an entrenched opponent. But simply introducing a new issue is not alone a path to victory. For a disadvantaged candidate to have any hope of winning an election by introducing new issues, some voters must see the issues as linked.

EDITOR'S PROOF

507 In the one dimensional spatial model, two competing candidates will converge to
 508 the position of the median voter. This theoretical result does not fit reality, primarily
 509 because politics is multidimensional. In a multidimensional model with two candi-
 510 dates, an equilibrium will not generally exist and candidates will change positions
 511 on issues in a never-ending quest for an electoral advantage. This prediction also
 512 does not appear to fit real elections. Imposing some additional realistic structure
 513 on the multidimensional spatial model of electoral competition produces new and
 514 surprising results.

515 When candidates have fixed positions in an issue space, a candidate can take a
 516 position on a new issue in order to beat an advantaged opponent. Instead of changing
 517 positions on existing issues, a potentially costly strategy if voters penalize “flip-
 518 floppers,” candidates can compete by expanding the scope of conflict to include new
 519 issues. But only when some voters have nonseparable preferences will the strategy
 520 of introducing a new issue prove beneficial for a disadvantaged candidate. Issue
 521 packaging is a fundamental strategy of electoral politics, part of what William Riker
 522 called “heresthetics,” or the art of political manipulation (Riker 1986).

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EDITOR'S PROOF

When Will Incumbents Avoid a Primary Challenge? Aggregation of Partial Information About Candidates' Valence

Gilles Serra

1 Introduction

Incumbents and other insiders tend to enjoy a comfortable position within their parties. In particular, they frequently have an advantage to secure their party's nomination for a future election. Outsiders who do not necessarily belong to the dominant faction in the party have a much harder time getting their name on the ballot. They are disadvantaged in at least two ways: they might be less well-known than the party grandees they are competing with; and there might not even be a fair competition such as a primary election for them to prove themselves. A question of interest is why parties allow well-known insiders to have such an advantage over lesser-known outsiders. We would imagine an ambitious party that wishes to win elections to find mechanisms for identifying and selecting the best possible candidate, regardless of that candidate's previous standing in the party. One option would be to democratize the nomination process to let fresh outsiders join an open competition where they can display their true campaigning skills. This option is widely available to political parties around the world, though it is not always used. In this paper I explore the conditions under which candidate-selection is democratized, and I show that rational parties who wish to find the most talented candidate may nevertheless shut down the possibility of unknown hopefuls coming forward to display their talents.

Indeed, a political party can use a variety of methods to nominate those who will later compete for office at a given election. Broadly speaking, a candidate-selection method (CSM) can fall in two categories. On one hand, the method could be *open* (or *democratic*) by allowing the participation of all the members, activists and sympathizers of the party in the nomination of candidates. Of all the selection methods that parties can use, the most open and democratic one is the *primary election*. By

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primary election, I refer to the organized competition among aspiring candidates within the same party that culminates in the democratic vote of all party members. On the other hand, the nomination method could be *closed* (or *undemocratic*), consisting of a closed-door decision at the elite level of the party. For example, the nominee for an upcoming presidential or gubernatorial election could be chosen by a handful of party bosses at a private meeting. As argued throughout this paper, the choice matters for the party in terms of its prospects of winning the election; but it also matters for citizens in terms of the quality of candidates they are offered.

Party leaders are for the most part responsible for the way their parties nominate candidates. In most presidential systems, political parties have leeway in choosing their CSM, and it is usually *not* the case that primaries are exogenously imposed on them by the government. In fact, it is common for political parties to have serious deliberations on what CSM to adopt before even discussing which candidates to select. Their adoption of primary elections is most often *voluntary* rather than mandated by law. Throughout Latin America we repeatedly see party elites debating whether to open the nomination process or not. Actually, it is not uncommon for parties to go back and forth between primaries and other CSMs in recurrent elections, which clearly indicates the strategic nature of that choice. In the United States, party elites also have a strong say in choosing whether their nomination will be open and inclusive, or closed and exclusive. They do so by choosing whether to endorse a favored candidate or not. If party leaders decide to rally behind a well-known insider, they will provide her with public endorsements, strategic advice and large amounts of funding to overwhelm any challenger. On the other hand, if party leaders do not identify an insider candidate that satisfies them, they will withhold or divide their endorsements such that a competitive race among several hopefuls takes place. Thus, while parties are “officially” holding a primary election, in practice that primary can be competitive or uncompetitive. In effect, this is equivalent to choosing between a democratic and an undemocratic CSM. Hence, I claim the explanation for the use of primaries around the world lies in the strategic calculations of party leaders

This paper postulates a benefit to party leaders that helps explain why they occasionally allow the use of primary elections within their parties. To be concrete, I claim that primary elections have a practical advantage over elite-centered nominations: *they reveal information about candidates' appeal to voters*. My premise is that a candidate nominated through a primary election can be expected to have higher campaigning skills than a candidate nominated through an elite appointment. This happens because the primary campaigns reveal valuable information about the contenders. Indeed, there is much uncertainty surrounding the individuals seeking to become a party's candidate, often called *pre-candidates*. Their future vote-getting effectiveness is never known for sure. A primary can serve as a “trial” election *within* a party that shares many of the features of the subsequent general election *between* the parties. Pre-candidates must participate in debates, broadcast television advertisements, manage a campaign, and so forth. Thus primaries can reveal how effective the pre-candidates would be in the general election. In that sense, my model provides an “information rationale” for the existence of primary elections.

93 On the other hand, as mentioned above, primaries might carry several costs to
 94 party leaders. In this paper I focus on one oft-mentioned cost: primary elections
 95 might push candidates to adopt policies far from the leaders' preferences. Indeed,
 96 the party bosses know that primary voters may not quite share their ideology. They
 97 might be too extremist or too moderate to be trusted with the selection of the party's
 98 candidate. The main point is that party leaders face a trade-off between the costs and
 99 benefits of a primary election. The results in this paper reveal that the party leaders'
 100 decision is not trivial

101 On that basis, I build a spatial voting model that includes a party's choice between
 102 a competitive primary election and an elite-centered nomination. The main question
 103 is: When does the informational benefit of primaries outweigh the cost of losing
 104 control of the candidates' platforms? As the results will indicate, the answer depends
 105 on several fundamental variables: the ideology of parties, the ideology of primary
 106 voters, the intensity of the primary election, and the quality of insider and outsider
 107 candidates.

108 This model is a continuation of the research in Serra (2011). The main contribu-
 109 tion with respect to that research is analyzing the revelation of *partial* information
 110 rather than *full* information, by which I mean that primary elections only reveal
 111 part of the information needed to assess a contender, but his or her ability to per-
 112 form well in the general election would still not be known in full. To be concrete,
 113 I assume the contenders' performances within the party are interpreted as "noisy
 114 signals" that can be interpreted as forecasts of their performance if they were nomi-
 115 nated to compete against another party. In this sense, the model falls in the tradi-
 116 tion of modeling voting as a process to *aggregate* information—a tradition initiated
 117 by Condorcet (1785), Austen-Smith and Banks (1996), Feddersen and Pesendorfer
 118 (1998).

119 Several new results are found with this modeling choice. Two new variables can
 120 be studied more precisely. The ability of primaries to reveal valuable information,
 121 which I call the *quality* of primaries; and the reputation of the insider candidate as
 122 proficient vote-getter, which I call the *prior belief* about the insider's skill. Regard-
 123 ing the quality of primaries, I find that a party can benefit from stiff competition in
 124 its primary election. This result stands in contrast with an oft-mentioned view that
 125 parties should ensure their primaries are light and cordial. Regarding the prior belief
 126 held about the skill of candidates, I find that an insider might have a good enough
 127 reputation to prevent a primary election altogether. This result would help explain
 128 why many incumbents are able to be re-nominated for a subsequent election without
 129 being opposed inside their parties. Both results are new in the literature on primary
 130 elections as far as I can tell.

131 In addition to these new results, many of the previous results in Serra (2011)
 132 are corroborated. In particular, this paper also finds that primaries are more likely
 133 when there is congruence between the elite and the mass membership of the party;
 134 and primaries are more appealing to the party that is most disadvantaged given its
 135 valence and policies.

136 The rest of the paper is developed as follows: Sect. 2 briefly summarizes the
 137 theoretical literature that relates to my model. Section 3 introduces a spatial vot-
 138

139 ing model between two parties that will serve to study the general election. It is a
 140 variant of the Downsian voting model, with an additional dimension corresponding
 141 to the candidates' valence. In Sect. 4, I take a step back in the electoral process,
 142 and I study the nomination that takes place inside a party before the general elec-
 143 tion. Section 5 develops a signaling mechanism for primary voters to update their
 144 beliefs about pre-candidates based on their performance in the primary campaigns.
 145 Section 6 introduces a cost of adopting primaries based on the lack of congruence
 146 between the elite and the mass in the party. In Sect. 7, I derive a number of con-
 147 ditions for a party to hold a competitive primary election, which is the purpose of
 148 this paper. Finally, Sect. 8 discusses the main results and suggests some interpreta-
 149 tions of relevance to democratic theory. The [Appendix](#) contains all the proofs of the
 150 results in this paper.

151 152 153 154 **2 Previous Theories of the Adoption of Primary Elections**

155 The paper adds to the formal literature on primary elections. Most authors have stud-
 156 ied the consequences of primaries, rather than their causes. Several papers in that
 157 literature share common aspects with this one, especially those comparing different
 158 candidate-selection methods (CSM). Owen and Grofman (2006) compare primaries
 159 with different degrees of divergence between the party mean and the population
 160 mean. Jackson et al. (2007) study three different nomination processes: an arbi-
 161 trary appointment by a party leader, a primary election, and a spending competition
 162 between candidates. In Castanheira et al. (2010), parties select their internal orga-
 163 nization possibly including intra-party competition. Cho and Kang (2008) compare
 164 open and closed primary elections.

165
 166 Another set of papers that relate to my model, are those that have paid attention
 167 to informational aspects of primaries. In Caillaud and Tirole (2002) and Castan-
 168 heira et al. (2010), the use of primaries provides information about the credibility
 169 and trustworthiness of the party. In Meirowitz (2005), primaries allow candidates to
 170 acquire information about voters' preferences. Then there is a set of papers where
 171 primaries reveal information about the valence of primary contenders.

172 For instance, Adams and Merrill (2008) postulate that primary elections may
 173 allow a party to identify a high-quality nominee. The authors find, as I do, that
 174 weak parties benefit from primaries more than strong parties do. In spite of those
 175 similarities, our models have important differences because the focus of their paper
 176 is the candidates' choice of platforms, while the focus of my paper is the parties'
 177 choice of candidates.

178 Another closely related paper is Snyder and Ting (2011) who also studies a
 179 party's decision to hold a primary election or not. As in my model, parties com-
 180 pete both in terms of ideology and valence. Snyder and Ting also assume that
 181 primaries increase the expected valence of the nominee. A main difference is
 182 the alternative CSM. If a party does not hold a primary, Snyder and Ting as-
 183 sume that the nominee will be chosen at random among all the willing pre-can-
 184

185 didates. In contrast, I assume the party elite will choose an insider candidate in
 186 a smoke-filled room. Another difference is that both parties are bound to use
 187 the same CSM by state law, whereas in my model parties can have different
 188 CSMs.

189 Kselman (2012) develops a model where aspirants must compete in a primary
 190 election to obtain their party's nomination. In his model, candidates enjoy a type
 191 of valence that serves as a bonus for parties that are office-seeking. Interestingly,
 192 this type of valence is particularistic in the sense that only a subset of voters benefit
 193 from it.

194 Finally, this paper is related to the literature on *endogenous valence*. Some
 195 other papers have also allowed the agents in their models to affect the valence
 196 parameter are Ashworth and de Mesquita (2009), Schofield and Sened (2005),
 197 Schofield (2007), Carrillo and Castanheira (2008), Callander (2008), Meirowitz
 198 (2008), Schofield et al. (2008).

199 The model in this paper is one of the few that combines both literatures, the
 200 one on valence and the one on primaries. As in Adams and Merrill (2008), Sny-
 201 der and Ting (2011), and Serra (2011), the premise here is that primaries help par-
 202 ties by revealing the valence of their candidates. Unlike those papers, however, this
 203 paper develops a signaling mechanism to reveal partial rather than full informa-
 204 tion.

205 206 207 208 **3 General Election Between the Two Parties**

209
210 In this section I focus on the competition between two parties without any refer-
 211 ence to primary elections. In essence, this corresponds to the “general election” that
 212 occurs after all parties have already completed their nomination cycle. This will be
 213 a *valence-policy model*, meaning that it will have two dimensions. First, the elec-
 214 tion occurs in a left-right policy spectrum. I denote by x the policy implemented,
 215 with $x \in \mathbb{R}$. Second, there is a dimension corresponding to valence, which is de-
 216 scribed in detail below. The valence dimension is denoted by v , with $v \in \mathbb{R}_+$. The
 217 model I present here is an application of the more general model developed in Serra
 218 (2010).

219 220 221 **3.1 Parties**

222
223
224 There are two parties competing in this election, labeled party L and party R .
 225 Following the Wittman-Calvert-Roemer tradition, I assume that parties are *policy-*
 226 *motivated*, meaning that they care about the policy implemented after the election
 227 (Wittman 1973; Calvert 1985; Roemer 2001). Parties L and R have ideal policy
 228 points X_L and X_R , respectively. The two parties have distinct ideologies so that
 229 $X_L \neq X_R$. I normalize the ideal point of the median voter in the general election
 230

to zero, and without much loss of generality I assume $X_L < 0 < X_R$. The utility functions of L and R are

$$U_R(x) = -|X_R - x|$$

$$U_L(x) = -|X_L - x|$$

In later sections I will specify two separate groups within party R with different ideal points X_{RE} and X_{RM} . For this section, however, it is sufficient to think of X_R as the generic ideal point of R . At this stage it is useful to define a few concepts. By a party's *extremism* I will mean how far its ideal point is from the median voter's ideal point. Concretely, party R 's extremism will be measured by $|X_R|$, and party L 's extremism will be measured by $|X_L|$.¹

Finally, parties formulate policy platforms to compete in the election, and they do so strategically in order to maximize their expected utility. I call those platforms x_L and x_R , with $x_L, x_R \in \mathbb{R}$.

3.2 Candidates

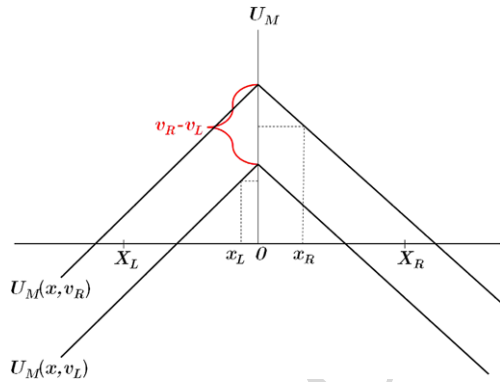
All candidates are characterized by a parameter v denoting how appealing their non-policy attributes are to voters in that election. Parameters such as v have been called "valence parameters" and can be given many interpretations (for an overview see Schofield (2007) and Adams et al. (2009)). In the context of this paper, v is best interpreted as the candidate's *campaigning skill*. It can take two values: a low value normalized to zero corresponding to a low-skilled candidate, and a high value of V corresponding to a high-skilled candidate. Hence $v \in \{0, V\}$. I label v_L and v_R the skills of candidates in parties L and R , respectively. To focus on the interesting cases, I will assume that valence is sufficiently salient to make a difference in the election; technically I will assume that the valence of a high-skilled candidate is strictly larger than the extremism of both parties, meaning that $|X_L|, |X_R| < V$.² Indeed, for smaller values of V , the valence dimension loses influence in the election and the results become trivial. I report these results in footnotes, and I refer the reader to Serra (2011) for a fuller analysis of a lower salience of valence.

In this model, candidates do not have policy preferences of their own. Rather, they will adopt the policy preferences of their party. To be exact, the candidate will behave as if having the exact utility function of the party that nominated her. She will announce the platform designed by her party during the campaigns, and she will implement such platform in case she wins the election.

¹Of course, note that $|X_R| = X_R$ and $|X_L| = -X_L$.

²This is equivalent to assuming that $-V < X_L$ and $X_R < V$.

Fig. 1 The effect of a valence advantage for R over L



3.3 The General Electorate

The electorate cares about the policy implemented after the election. To simplify the analysis, I will assume that there is a median voter, which I call M , whose preferences are decisive in the election. I normalize her ideal point to zero.

In addition to the policy implemented x , the electorate also cares about the skill v of the winning candidate. The utility function of M is given by

$$U_M(x, v) = -|x| + v$$

M will vote for the party whose candidate maximizes her utility. I make the following indifference assumptions. If M is indifferent between the two parties, she will vote for the one whose candidate has the highest skill. If both candidates have the same skill, she will randomize equally between the two.

It is worth looking more closely at how the median voter makes her decision in this kind of model. As elaborated in Serra (2010), M 's appreciation for a candidate decreases with the distance between her ideal point and that candidate's platform, and increases with the candidate's valence. In essence, the valence parameter v "shifts up" the utility function of M . An example of how M evaluates R and L is illustrated in Fig. 1, where it is assumed that $v_L < v_R$ and $|x_L| < |x_R|$. In the case depicted in this figure, candidate R is strictly preferred to candidate L in spite of having a more extremist platform. Candidate R is able to win the election because her higher score in the valence dimension more than compensates her extremism in the policy dimension.

3.4 Timing and Solution Concept

The timing of this election is the following:

1. **Assessment of the candidates' skills:** Parties announce their candidates who start campaigning. The candidates' campaigning skills v_L and v_R are observed.

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- 323 2. **Assessment of the policy platforms:** Candidates announce their platforms x_L
 324 and x_R .
 325 3. **The general-election vote:** The median voter elects L or R .

326 Stage 1 does not involve any decision: the candidates are revealed to voters, along
 327 with their valence attributes. The first decision is made in Stage 2 where each candi-
 328 date must announce and promote her platform taking the other candidate's platform
 329 into account. In Stage 3, once candidates' skills, v_L , v_R , and platforms, x_L , x_R , have
 330 been observed and assessed, the median voter elects L or R to office. All this infor-
 331 mation is common knowledge. The game must be solved by backward induction and
 332 the solution concept is subgame-perfect equilibrium (SPE) in pure strategies. It will
 333 be important to recall that a SPE requires that all strategies form a Nash equilibrium
 334 (NE) in every subgame.
 335

336 3.5 Results of the General Election

337
 338 Before stating the main results of this section, some important variables should be
 339 defined. I call Δv the difference in skill between R 's candidate and L 's candidate. To
 340 be concrete, $\Delta v \equiv v_R - v_L$. Note that Δv can take three values: $\Delta v \in \{-V, 0, V\}$.
 341 I call x_L^* and x_R^* the equilibrium strategies of parties L and R , and x^* the winning
 342 platform. These parameters will determine the results of the general election, as
 343 indicated in the main theorem on this section. It must be remember that valence was
 344 assumed to be salient enough that $|X_L|$ and $|X_R|$ are smaller than V , which implies
 345 that $-V < X_L$ and $X_R < V$.
 346
 347

348
 349 **Theorem 1** *The equilibrium strategies and equilibrium outcomes of this election for*
 350 *given values of v_L , v_R , V , X_L and X_R are given in Table 1, where $\Delta v \equiv v_R - v_L$.*

351
 352 There are several comments to make about Table 1.³ First note the results when
 353 $\Delta v = 0$, that is, when there is no skill difference between the candidates. Both par-
 354

355 **Table 1** Equilibrium outcomes of the general election

356 Value of Δv	357 Equilibrium platforms x_R^* and x_L^*	358 Winning platform x^*	359 Winning party
360 V	361 $x_R^* = X_R$ 362 $x_L^* \in \mathbb{R}$	363 X_R	364 R
365 0	366 $x_R^* = 0$ 367 $x_L^* = 0$	368 0	R or L with equal probability
369 $-V$	370 $x_R^* \in \mathbb{R}$ 371 $x_L^* = X_L$	372 X_L	373 L

374
 375 ³The proofs of all the results come in the [Appendix](#).
 376
 377