

A STRUCTURAL MODEL OF INCUMBENCY, FUNDRAISING, AND DETERRENCE IN POLITICAL ELECTIONS

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The incumbency advantage is one of the most widely studied effects in political science. Incumbent politicians have numerous advantages over their challengers, which enable them to win elections more frequently. In particular, incumbents are often able to raise many times more funds to run their campaigns. This financial disparity may dissuade challengers from contesting elections, an effect known as deterrence.

Most of these effects have been extensively studied in the political science research, though only with reduced-form methods. This paper attempts to tie incumbency, fundraising, and deterrence together in a dynamic structural model. In this model, incumbent status and campaign funds are state variables which evolve over time according to the actions taken by the candidates. By estimating the parameters of this model, one can obtain measures of these effects as well as policy functions for candidates in response to different states.

The model is estimated using the two-step method from Bajari, Benkard, and Levin (2007). This framework is general enough to accommodate numerous counterfactual experiments, especially for past laws regarding campaign finance reform as well as proposed policy changes.