Abstract

We develop a model of political competition between types that differ in their subjective model of the data generating process for a common outcome. We show that political competition does not weed out misspecified models which are simpler as they ignore some relevant policy variables. Specifically, periods in which those with a correctly specified and more complex model govern increase the specification error of the simpler world view, leading the latter to underrate the effectiveness of complex policies and overestimate the positive impact of a few extreme policy actions. Periods in which simple types implement their narrow world view result in subpar outcomes and a weakening of their omitted variable bias. Policy cycles arise, where each types tenure in power sows the seeds of its eventual electoral defeat. 