

ABSTRACT

The thesis provides with an insight into the problem of fiscal centralization and decentralization from the political economy perspective. It mainly focuses on the concept of strategic delegation. The strategic delegation describes a situation, when voters do not vote for a candidate according to their own preferences and purposely pretend biased preferences. The effect of the strategic delegation plays very important role because it can distort outcome in centralization so that the centralized decision-making fails to internalize policy externalities. In the thesis, voters' incentives to delegate strategically are explored in two decision-making settings; centralization and decentralization. The presented model concerns decision-making on public goods provision in two regions with positive externalities. The analysis includes different types of public goods; neutral goods, strategic substitutes and complements. Moreover, the model is extended by a bargaining game showing that voters can delegate a policy-maker strategically to improve her bargaining position .