

## Econ 4500: Topics in New Institutional Economics

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### Overview

This is a 6 credit hour directed reading course at the advanced undergraduate level intended to introduce students to the in New Institutional Economics (NIE). Institutions have become a major research area in economics at the microeconomic as well as macroeconomic level, and have become especially important in the development literature. This class is intended to expose students to this important and growing topic.

Students will be required to read papers weekly in different areas of the NIE literature as well as meet weekly for 1 hour with the instructor. The goal of this course is that students will come away with good coverage of the NIE literature as well as the current empirical approaches taken in this literature.

### Grading

Weekly Discussions: 10%  
4 “Think Piece” Papers: 60%  
Oral Final Exam: 30%

The letter grades are distributed as follows (note: all grades are subject to departmental approval):

A+ = 92-100%  
A = 83-91.9%  
B+ = 75-82.9%  
B = 70-74.9%  
C+ = 65-69.9%  
C = 57-64.9%  
D = 50-56.9%  
F = 0-49.9%

As required by the University, please note:

1. Evaluative feedback will be provided by the voluntary withdrawal deadline, which is March 20, 2008.
2. Students will not be permitted to write make-up tests or hand in assignments late, except for documented medical or compassionate reasons.
3. Students should acquaint themselves with the University’s policy on plagiarism and cheating and examination impersonation (see p. 28 of the 07-08 UofM undergraduate calendar).
4. Students appealing any term work whether it be an informal or formal appeal must appeal their term work within 10 working days of receiving their mark.

## Materials

This course will draw heavily from journal articles as well as from the following book:

Menard, Claude and Mary M. Shirley, eds. *Handbook of New Institutional Economics*, Dordrecht Netherlands: Springer Press, 2005. (=HNIE)

### Topics and Reading List

#### 1. Introduction to New Institutional Economics I

- North, Douglass C. (1991). "Institutions." *Journal of Economic Perspectives* 5(1): 97-112.
- Williamson, Oliver (2000). "The New Institutional Economics: Taking Stock, Looking Ahead." *Journal of Economic Literature*, 38(3): 595-613
- North, Douglass C. "Institutions and the Performance of Economies Over Time." *HNIE*

#### 2. Introduction to New Institutional Economics II

- Coase, Ronald H. "The Institutional Structure of Production." *HNIE*
- Williamson, Oliver. "Transaction Cost Economics." *HNIE*

#### 3. Firms and Organization

- Miller, Gary. "Solutions to Principal-Agent Problems in Firms." *HNIE*
- Joskow, Paul H. "Vertical Integration." *HNIE*

#### 4. Transaction Costs

- Richman, Barak D. and Jeffrey Macher (2006). "Transaction Cost Economics: An Assessment of Empirical Research in the Social Sciences." Duke Law School Legal Studies Paper No. 115.

#### 5. Legal Institutions

- Rubin, Paul H. "Legal Systems as Frameworks for Market Exchanges." *HNIE*
- Beck, Thorsten and Ross Levine. "Legal Institutions and Financial Development." *HNIE*

#### 6. Property Rights

- North, Douglass C. and Barry Weingast (1989). "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." *Journal of Economic History*, 49(4):803-832.
- Libecap, Gary (1999). "Contracting for Property Rights." in Terry Anderson and Fred McChesney (eds) *The Law and Economics of Property Rights*.  
[http://economics.eller.arizona.edu/downloads/working\\_papers/anderson3s.pdf](http://economics.eller.arizona.edu/downloads/working_papers/anderson3s.pdf)

## **7. Regulation I**

- Libecap, Gary. "State Regulation of Open-Access, Common Pool Resources." *HNIE*
- Benham, Lee. "Licit and Illicit Responses to Regulation." *HNIE*

## **8. Regulation II**

- Law, Marc T. (2003). "The Origins of State Pure Food Regulation." *Journal of Economic History*, 63(4): 1103-1130.
- Law, Marc T. (2006). "How do Regulators Regulate? Enforcement of the Pure Food and Drugs Act, 1907-38." *Journal of Law, Economics, and Organization*, 22 (2): 459-89.

## **9. Informal Enforcement**

- Richman, Barak D. (2002). "Community Enforcement of Informal Contracts: Jewish Diamond Merchants in New York." *John M. Olin Center for Law, Economics and Business, Discussion Paper No. 384.*

## **10. Social Capital**

- Keefer, Philip and Stephen Knack. "Social Capital, Social Norms and the New Institutional Economics." *HNIE*
- Krishna, Anirudh (2002). "Introduction: Can Social Capital Help Support Development and Democracy?" *Active Social Capital: Tracing the Roots of Development and Democracy*. New York: Columbia University Press, 1-14.

## **11. Trust**

- Williamson, Oliver (1993). "Calculativeness, Trust, and Economic Organization." *Journal of Law and Economics*, 36(1): 453-486.
- Zak, Paul J. and Stephen Knack (2001). "Trust and Growth." *The Economic Journal*, 111 (470): 295-321.

## **12. Family Economics**

- Ensminger, Jean and Jack Knight (1997). "Changing Social Norms: Common Property, Bridewealth, and Clan Exogamy." *Current Anthropology*, 38(1): 1-24.
- Cheung, Steven N.S. (1972). "The Enforcement of Property Rights in Children and the Marriage Contract." *The Economic Journal*, 82(326): 641-657.
- Botticini, Maristella and Aloysius Siow (2003). "Why Dowries." *American Economic Review*, 93(4): 1385-1398.

## **13. How Do We Measure Institutions?**

- Aron, Janine (2000). "Growth and Institutions: A Review of the Evidence." *The World Bank Research Observer*, 15(1): 99-135.

- Clague, Christopher, Philip Keefer, Stephen Knack and Mancur Olson (1999). “Contract-Intensive Money: Contract Enforcement, Property Rights, and Economic Performance.” *Journal of Economic Growth*, 4(2): 185-211.

#### **14. Do Institutions Matter for Development?**

- Nabli, Mustapha K. and Jeffrey Nugent (1989). “The New Institutional Economics and Its Applicability to Development.” *World Development*, 17(9): 1333-47.
- Keefer, Philip and Stephen Knack (1997). “Why Don’t Poor Countries Catch Up: A Cross National Test of an Institutional Explanation.” *Economic Inquiry*, 35(3): 590-602.
- Acemoglu, Daron and James Robinson (2000). “Political Losers as a Barrier to Economic Development.” *American Economic Review*, 90(2): 126-130.

#### **15. Institutions and the Process of Economic Change**

- North, Douglass C. (1994). “Economic Performance Through Time.” *The American Economic Review*, 84 : 359-368.
- North, Douglass C., William Summerhill and Barry Weingast. “Order, Disorder, and Economic Change: Latin America vs. North America,” in Bueno de Mesquita, Bruce and Root, Hilton, editors, *Governing for Prosperity*, New Haven: Yale University Press, 2000

#### **16. Institutions, War and Political Unrest**

- Nye, John V.C. “Thinking About the State: Property Rights, Trade, and Changing Contractual Arrangements in a World with Coercion,” in Drobak, John and John Nye (eds). *Frontiers of the New Institutional Economics*, Academic Press, 1997.
- Alston, Lee J., Gary Libecap and B. Mueller. “Violence and the Development of Property Rights to Land in the Brazilian Amazon,” in Drobak, John and John Nye (eds) *Frontiers of the New Institutional Economics*, Academic Press, 1997.

#### **17. The Fundamental Cause of Development: Institutions vs. Geography/Culture I**

- Acemoglu, Daron (2003). “Root Causes: A Historical Approach to Assessing the Role of Institutions.” *Finance and Development* 40(2):27-30.
- Rodrik, Dani and Arvind Sabramanian (2003). “The Primacy of Institutions.” *Finance and Development* 40(2):31-34.
- Edison, Hali (2003). “Testing the Links: How Strong are the Links Between Institutional Quality and Economic Performance?” *Finance and Development* 40(2):35-37.
- Sachs, Jeffrey D (2003). “Institutions Matter, but Not for Everything.” *Finance and Development*, 40(2): 38-41.

## **18. The Fundamental Cause of Development: Institutions vs. Geography/Culture II**

- Easterly, William and Ross Levine (2003). “Tropics, Germs, and Crops: How Endowments Influence Economic Development.” *Journal of Monetary Economics*, 50(1): 3-39.
- Engerman, Stanley and Ken Sokoloff (2003). “Institutional and Non-Institutional Explanations of Economic Differences.” NBER Working Paper #9989.
- Glaeser, Edward L., Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer (2004). “Do Institutions Cause Growth.” *Journal of Economic Growth*, 9(3): 271-303.

## **19. Institutional Change I**

- North, Douglass C. (1990). “A Transactions Cost Theory of Politics.” *Journal of Theoretical Politics* 2(4): 355-367.
- Acemoglu, Daron and James A. Robinson (2006). “Persistence of Power, Elites and Institutions.” *NBER Working Papers*, #12108.

## **20. Institutional Change II**

- Grief, Avner. “Commitment, Coercion and Markets: The Nature and Dynamics of Institutions Supporting Exchange.” *HNIE*.
- Kingston, Chris and Gonzalo Caballero (2007). “Comparing Theories of Institutional Change.” Working Paper.

## **21. The Role of Institutions in Macroeconomic Relationships**

- Burnside, Craig and David Dollar (2004). “Aid, Policies, and Growth: Revisiting the Evidence” *World Bank Policy Research Working Paper* # 3251.
- Demetriades, Panicos and Siong H. Law (2006). “Finance, Institutions and Economic Growth.” *International Journal of Finance and Economics*, 11: 1-16.

## **22. Political Institutions**

- Olson, Mancur (1993). “Dictatorship, Democracy, and Development.” *American Political Science Review*, 87(3):567-575.
- Keefer, Philip and Stuti Khemani (2005). “Democracy, Public Expenditures and the Poor.” *World Bank Research Observer*, 20 (1): 1-28.

## **23. The Wide Reach of NIE**

- Allen, Douglas (1995). “Order in the Church: A Property Rights Approach.” *Journal of Economic Behavior and Organization*, 27(1): 97-117.
- Greif, Avner (1993). “Contract Enforceability and Economic Institutions in Early Trade: the Maghribi Traders' Coalition.” *American Economic Review*, 83(3): 525-48.
- Jones, Benjamin F. and Benjamin A. Olken (2007). “Hit or Miss? The Effect of Assassinations on Institutions and War.” *NBER Working Paper No. 13102*.