

The Political Economy of Institutions

V53.0575

Professor Hafer

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Course Description

This course examines the relationship between economic incentives and the creation and maintenance of political and economic institutions. Topics include, but are not limited to, the creation and assignment of property rights, the rule of law, and the creation of markets. The course focuses on theories that advance an economic rationale for institutions and relies on the methodologies of game theory and rational choice, of which no prior knowledge will be assumed. Students must complete V53.0500 before enrolling.

Course Requirements

The course requirements consist of one set of technical exercises, one short (12 page) paper, two exams and active and informed class participation. Course grades will be calculated using the following weights: problem set (10%), paper (20%), midterm exam (25%), final exam (35%), class participation (10%).

Students are expected to do the assigned readings before class and to be prepared to discuss the readings in detail. A thorough understanding of both the readings (including material not discussed in class) and the lecture material (including that not included in the readings) is necessary to perform well on exams and in class discussions.

Academic Integrity

All the graded assignments for this course must be products of your own work. Words and ideas of other authors used in your work must be properly referenced in accordance with the standard reference manuals (APA, MLA, Chicago, etc.). All instances of plagiarism (whereby the work of other authors is presented as your own) and cheating will be handled in accordance with university policy. For a more detailed description of university policy, see <http://www.nyu.edu/cas/map/integrity.html>.

Students with Disabilities

If you have any medically diagnosed condition which will make it difficult for you to carry out the work outlined in this syllabus, or which will require additional time for exams, please notify me and the University Center for Students with Disabilities (CSD) in the first week of the course so that we may make appropriate arrangements. All information and documentation of disability is confidential.

Readings

Students should purchase the following texts at the bookstore, and a course packet from New University Copies on Waverly Place.

Yoram Barzel, *Economic Analysis of Property Rights*. Second Edition. Cambridge: Cambridge University Press, 1997.

Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books, 2000.

Avinash K. Dixit and Barry J. Nalebuff. *Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life*. New York: W. W. Norton, 1991.

Albert Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge: Harvard University Press, 1970.

Douglass North and Robert Thomas, *The Rise of the Western World*. Cambridge: Cambridge University Press, 1973.

Schedule of Topics and Assignments

Jan. 20: **Introduction: How to Make and Evaluate Arguments about Social Processes**

Jan. 25, 27: **Concepts of Analysis I: Strategic Choice and Stable Social Outcomes**

Avinash K. Dixit and Barry J. Nalebuff. *Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life*. New York: W. W. Norton, 1991, pp. 1-86.

Problem Set Distributed

Feb. 1, 3: **Concepts of Analysis II: Credible Threats and Promises**

Dixit and Nalebuff, *Thinking Strategically*, pp. 89-198.

Feb. 8, 10: **The Content of Property Rights**

Problem Set Due at the beginning of class Feb. 8

Ronald Coase, "The Problem of Social Cost." *Journal of Law and Economics* vol. III, (October 1960), pp. 1-44.

Yoram Barzel, *Economic Analysis of Property Rights*. Second Edition. Cambridge: Cambridge University Press, 1997, pp. 1-64.

Feb. 15, 17: **Individual Incentives and Enforcement of Property Rights**

Hernando de Soto, *The Other Path: The Invisible Revolution in the Third World*. New York: Harper and Row, 1989, pp. 17-92.

Barzel, *Economic Analysis of Property Rights*, pp. 85-104.

Feb. 22, 24: **Property Rights Without Governments**

John R. Umbeck, *A Theory of Property Rights with Application to the California Gold Rush*. Ames: Iowa State University Press, 1981, Chs. 1, 5-9.

Avner Greif, "Reputation and Coalitions in Medieval Trade: Evidence on the Maghribi Traders." *Journal of Economic History*, vol. 49, no. 4 (December 1989), pp. 857-882.

March 1, 3: **Credible Commitment and Predatory Governments**

Douglass C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." *Journal of Economic History* vol. 49, issue 4 (December 1989), pp. 803-832.

David Stasavage, *Public Debt and Birth of the Democratic State: France and Great Britain, 1688-1789*, Cambridge: Cambridge University Press, 2003, pp. 1-50.

March 8, 10: **Collective Action**

Mancur Olson, *The Logic of Collective Action*. Cambridge: Harvard University Press, 1965, pp. 1-52.

Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press, 1990, pp. 29-57.

March 22: **Midterm Examination**

March 24: **Economic and Political Hierarchies I**

R. H. Coase, "The Nature of the Firm." *Economica* (1937), pp. 386-398.

Barzel, *Economic Analysis of Property Rights*, pp. 65-84

March 29: **Economic and Political Hierarchies II**

Albert Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge: Harvard University Press, 1970, pp. 1-61.

March 31: **Regulation**

Andrei Shleifer, "Understanding Regulation." Manuscript. September 2004.

TBA

April 5: **Government**

Joseph Stiglitz, "The Private Uses of Public Interests: Incentives and Institutions." *Journal of Economic Perspectives*, vol. 12, no. 2 (Spring 1998), pp. 3-22.

Andrei Shleifer and Robert Vishny, "Corruption." *Quarterly Journal of Economics*, vol. 108, no. 3 (August 1993), pp. 599-617.

April 7: *No Class*

April 12, 14: **Institutions and Economic Growth: Theory and History**

Boyan Jovanovic, "Growth Theory." NBER Working Paper 7468 (January 2000).
<http://www.nber.org/papers/w7468>

Douglass North and Robert Thomas, *The Rise of the Western World*. Cambridge: Cambridge University Press, 1973, pp. 1-24, 91-156.

April 19, 21: **Economic Transitions and Institutional Change**

Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books, 2000, pp. 1-76, 207-228.

Timothy L. Frye and Andrei Shleifer, "The Invisible Hand and the Grabbing Hand: Private Shops in Moscow and Warsaw." *American Economic Review Papers and Proceedings* LXXVII, 1997, pp. 354-8.

April 26: **Institutional Stability**

Randall L. Calvert, "The Rational Choice Theory of Social Institutions: Cooperation, Coordination, and Communication." In Jeffrey S. Banks and Eric A. Hanushek, eds., *Modern Political Economy: Old Topics, New Directions*. Cambridge: Cambridge University Press, 1995, pp. 216-76.

April 28: **Review**

Papers Due at the beginning of class on April 28

Final Exam: Thursday, May 5, 10:00-11:50am as scheduled by the Registrar