

**Political Economy of Institutions  
V53.0595  
(Politics, Policy, and Economic Development)**

Professor Hafer  
Politics Department- Hamilton Center

Spring 2007  
Wednesdays 9:30-12:00  
Silver Center #409

**Contact Information**

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**Course Description**

This course examines the relationship between political and economic factors in accounting for the choice and success of economic policies in promoting growth, development, and well-being. Topics include but are not limited to establishing and enforcing property rights, creating and expanding markets, globalization, government corruption and good governance. 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.

**Course Requirements**

The course requirements consist of one set of technical exercises, a midterm exam, a group project to be presented in class, and active and informed class participation. Course grades will be calculated using the following weights: problem set (15%), research project (35%), midterm exam (35%), class participation (15%).

*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 the exam 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:**

The following assigned books can be purchased at the NYU bookstore:

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

Jagdish Bhagwati, *In Defense of Globalization*. Oxford: Oxford University Press, 2004.

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

William Easterly, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. Cambridge: MIT Press, 2002.

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

John McMillan, *Reinventing the Bazaar: Natural History of Markets*. (New York and London: W. W. Norton, 2002.

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

In addition, a reading packet will be made available through New University Copies on Waverly Place beginning on January 22.

## **Schedule of Topics and Readings**

### **Concepts of Analysis**

Avinash K. Dixit and Barry J. Nalebuff. *Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life*. New York: W. W. Norton, 1991. Parts 1 and 2.

### **Individual Incentives and the Enforcement of Property Rights**

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

Yoram Barzel, *Economic Analysis of Property Rights*. Second Edition. Cambridge: Cambridge University Press, 1997. Chs. 1-6

Hernando de Soto, *The Other Path: The Invisible Revolution in the Third World*. New York: Harper and Row, 1989. Chs. 2-3.

### **Markets**

John McMillan, *Reinventing the Bazaar: Natural History of Markets*. (New York and London: W. W. Norton, 2002.

### **Globalization**

Jagdish Bhagwati, *In Defense of Globalization*. Oxford: Oxford University Press, 2004. Sections I and II.

Roumeen Islam, "What Are the Right Institutions in a Globalizing World? *And can we keep them if we've found them?*" World Bank Policy Research Working Paper 3448, November 2004.

### **Corruption and Effective Governance**

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

Jakob Svensson, "Eight Questions about Corruption." *Journal of Economic Perspectives*, Volume 19, Number 3 (Summer 2005), 19-42.

Bruce Bueno de Mesquita, James D. Morrow, Randolph Siverson, and Alastair Smith, "Political Institutions, Political Survival, and Policy Success." In Bruce Bueno de Mesquita and Hilton L. Root, eds., *Governing for Prosperity*. New Haven: Yale University Press, 2000, 59-84.

### **Politico-Economic Transitions and Economic Growth**

Boyan Jovanovic, "Growth Theory." NBER Working Paper 7468 (January 2000).

William Easterly. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. Cambridge: MIT Press, 2002. Chapter 1 and Section III.

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

### **Developing capacity and administering aid**

Albert Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge: Harvard University Press, 1970. Chs. 1-5.

F. Desmond McCarthy, William Bader, Boris Pleskovic, “Creating Partnerships for Capacity Building in Developing Countries The Experience of the World Bank.” World Bank Policy Research Working Paper 3099, July 2003

Brian Snowdon, “A Global Compact to End Poverty: Jeffrey Sachs on Stabilisation, Transition and Weapons of Mass Salvation.” *World Economics* Vol. 6, No. 4, October–December 2005.

William Easterly, “The Big Push Déjà Vu: A Review of Jeffrey Sachs’ *The End of Poverty: Economic Possibilities for Our Time*.” *Journal of Economic Literature* Vol. XLIV (March 2006), 96–105.

### **Health**

Anne Case and Angus Deaton, “Health and Wellbeing in Udaipur and South Africa.” In *Developments in the Economics of Aging*, David Wise, ed. Chicago: University of Chicago Press, 2006.

David Cutler, Angus Deaton, and Adriana Lleras-Muney, “The Determinants of Mortality.” *Journal of Economic Perspectives*, 20(3), Summer 2006.

Robert W. Fogel, “Changes in the Disparities in Chronic Disease during the Course of the Twentieth Century.” NBER Working Paper # 10311, February 2004.

### **Conclusion and Review**

Avinash Dixit, “Evaluating Recipes for Development Success.” Princeton Department of Economics Mimeo, 2005.