

Institutions and Economic Development

Prof. Dr. Stefan Houpt

Office: 18.2.D.15

Office hours: any day of the week by appointment

Emails: stefan.houpt@gmail.com and shoupt@clio.uc3m.es

Objective: This course is designed to give a better understanding of the role of institutions in social, political and economic structures and their changes over time.

Approach: The course is designed in four parts. Part I will consist of two lectures on essential building blocks relevant for Institutions and Economic Development (Sep 17 & 24). Part II will consist of four lectures centered around the four path-breaking scholars of New Institutional Economics: Ronald Coase, Oliver Williamson, Douglass C. North, and Elinor Ostrom (Oct 1, 8, 15, 22). Part III will consist of five guided applications sessions (Oct 29, Nov 5, 12, 19, & 26) covering the more relevant directions of the application of institutional theory to growth and development. Part IV —the final session— will wrap up the course, give some basic guidelines to prepare for the final exam and set aside some time for an evaluation of the course (Dec 03). One half to one third of each session (one hour to one-and-a-half hours) will be a lecture. The rest of each session will be focused on discussion of and presentations by students on the topics of the assigned papers (see below under grading).

Grading: The student's grade will be based on:

- 1) the discussion in class of the chapters from the indicated chapters of the book to be read in the first six weeks of class. Douglass C. North (1981), Structure and Change in Economic History, Cambridge: Cambridge University Press. [30%]
- 2) the discussion in class of the articles and statistical exercises assigned in class during the last six weeks of class. [30%]
- 3) a final exam covering the more essential contents of the class lectures. The exam will consist of 10 multiple choice questions, three short answer questions and a one-page essay question (choosing one of two proposed questions). [40 %]

The student's discussion will have two dimensions.

A. Brief in class presentation of material from the selected chapters (first six weeks) and selected articles (second five weeks).

B. In-depth Discussion of

- 1) Essence of topic as presented by the author(s) of the chapter/article.
- 2) Agreements (uses) and disagreements (failures to use or contradictions) of the author(s) with the concepts and views of institutions presented in the first six lectures.
- 3) Relationships to similar problems, contexts; different evidence; comparisons in time and space.

Word of caution: Student evaluation will be based on the principles of equal opportunity which implies:

- a) Plagiarism in any of its perceivable forms will be punished.
- b) Group work will be evaluated individually by the group members.
- c) Free-riding will be punished.
- d) All classes and class assignments are obligatory – there will be no make-ups on any of the assignments.

Course Outline.

17/09/2019	11:00	Course Introduction	Kohn (n.d.), ch. 1
	12:00	Growth and Development	Lin & Nugent (1995)* Sect, 2; Lewis (1988); Sen (1988); Bardhan (1988)
	13:00	<i>Discussion</i>	<i>Chapters 1, 2 & 3 North (1981)*</i>
24/09/2019	11:00	Institutions - Introduction	North (1990* & 2005)
	12:00	New Institutional Econ. History	Krul (2018)*
	13:00	<i>Discussion</i>	<i>Chapters 4, 5 & 6 North (1981)*</i>
01/10/2019	11:00	Coase Firm & Social Costs	Coase (1988)*, chs. 2 & 5; Barzel (1997)
	12:00	Land titling	Galiani & Schargrotsky (2010); Galiani & Schargrotsky (2014); Kantor (1991)
	13:00	<i>Discussion</i>	<i>Chapters 7 & 8 North (1981)</i>
08/10/2019	11:00	Williamson - Vertical Integration	Williamson (1971*, 1973, 1998)
	12:00	The visible hand - mass production	Chandler (1999), chs. 8, 9, & 10
	13:00	<i>Discussion</i>	<i>Chapters 9 & 10 North (1981)</i>
15/10/2019	11:00	North - Social Order and Violence	North et al. (2009)*
	12:00	LAO in Mexico	Diaz Cayeros (2012); Abadie et al. (2003)
	13:00	<i>Discussion</i>	<i>Chapters 11 & 12 North (1981)</i>
22/10/2019	11:00	Ostrom - Commons	TBA
	12:00	Commons governance	Video Lake Victoria; Ostrom (1990)*
	13:00	<i>Discussion</i>	<i>Chapters 13, 14 & 15 North (1981)</i>
29/10/2019	11:00	Doing Business	World Bank Doing Business Reports
	12:00	Data analysis	Correlations and regressions
	13:00	Red tape and privatization	Case study Germany after reunification
05/11/2019	11:00	Governance	Licht et al. (2007); AJR (2005); Ben Yishay et al. (2009)
	12:00	Singapore	
	13:00	Asian miracles	
12/11/2019	11:00	Persistence	Wallis (2014)*; Acemoglu & Robinson (2006 & 2008)
	12:00	Honor codes, Roman roads	Grosjean (2014); Dalgaard et al. (2018)
	13:00	Culture and customs	Lowes et al. (2017); Michalopoulos et al. (2016)
19/11/2019	11:00	Colonial & Legal origins	Sokoloff & Engerman (2000)*
	12:00	Colonial Origins	AJR (2001)
	13:00	Finance and growth	Levine (2004)
26/11/2019	11:00	Corruption	Bardhan (1997)*; Svensson (2005)*; Fisman & Miguel (2007)
	12:00	Corruption ROL indexes	Correlations and regressions
	13:00	Guest speaker	
03/12/2019	11:00	Wrap-up & Exam preparation	
	12:00	Final Exam preparation	
	13:00	Course evaluation	

* The readings with an asterisk are the ones from which I am drawing a substantial amount of material for each lecture from. It does not mean they are the only readings I am relying on. They correspond roughly to what could be called minimum required readings for the course exam. The readings without the asterisk are relevant to the topic but I have not decided yet how heavily to rely on them, or if to use them at all. They correspond roughly to recommended readings in standard courses. I will comment on this in the wrap-up session.

Readings:

- Abadie, A., and Gardeazabal, J. (2001). The economic costs of conflict: a case study of the Basque country. *American Economic Review*, 93 (1): 113-132.
- Acemoglu, D., S. Johnson and J. Robinson (2005), "Institutions as a Fundamental Cause of Long-Term Growth," Ch. 6 in P. Aghion and S. Durlauf, *Handbook of Economic Growth*, North Holland Press.
- Acemoglu, D. and J. Robinson (2006), Persistence of Power, Elites and Institutions. NBER WP 12108.
- Acemoglu, D. and J. Robinson (2008), "The Persistence and Change of Institutions in the Americas," *Southern Economic Journal*, 75 (29): 282-99.
- Bardhan, P. (1988), "Alternative Approaches to Development Economics", Ch. 3 in H. Chenery and T. N. Srinivasan (eds.) *Handbook of Economic Development*, Vol 1, pp. 39-71, North Holland Press.
- Bardhan, P. (1997). "Corruption and Development: A Review of the Issues," *Journal of Economic Literature* 35 (3): 1320-46.
- Barzel, D. (1997), *The Economic Analysis of Property Rights* (second edition), Cambridge University Press.
- Benyishay A. and R. Betancourt (2009), "Civil Liberties and Economic Development," mimeo, U. of Maryland.
- Chandler, Alfred D. (1999). *The visible hand. The managerial revolution in American business*. Cambridge, Mass.: Belknap.
- Coase, R.H. (1988), *The Firm and the Market and the Law*. University of Chicago Press. 217 pp.
- Dalgaard, C.-J., N. Kaarsen, O. Olsson and P. Selaya (2018), "Roman Roads to Prosperity: Persistence and Non-Persistence of Public Goods Provision." University of Gothenburg Economics WP 722.
- Eggertsson, Thráinn (1990), *Economic Behavior and Institutions*. CUP. 385pp.
- Sokoloff, K.L. and S.L. Engerman (2000), "History Lessons Institutions factor endowments and paths of development in the new world," *Journal of Economic Perspectives*, 14 (3): 217-32.
- Findlay, R. (1991), "The New Political Economy: Its Explanatory Power for LDC's," in G. Meier (ed.) *Politics and Policy Making in Developing Countries*, ICS Press.
- Fisman R. and T. Miguel (2006), "Corruption, Norms and Legal Enforcement," *Journal of Political Economy*, 1020 - 1048.
- Galiani, S. and E. Scharrodsky (2010), "Property rights for the poor: Effects of land titling," *Journal of Public Economics*, 94: 700-729.
- Galiani, S. and E. Scharrodsky (2014), "Land Property Rights," in S. Galiani and I. Sened (eds.), *Institutions, Property Rights, and Economic Growth. The Legacy of Douglass North*. CUP, pp. 107-120.
- Grosjean, Pauline (2014), A History of Violence: The Culture of Honor and Homicide in the US South, *Journal of the European Economic Association*, 12(5): 1285–1316,
- Harriss, J., J. Hunter, and C.M. Lewis (1997), *The New Institutional Economics and Third World Development*. Routledge. 360 pp.
- Kohn, M. (n.d.), "The Origins of Western Economic Success: Commerce, Finance, and Government in Preindustrial Europe." Manuscript <https://sites.dartmouth.edu/mkohn/origins/>
- Krul, M. (2018), *The New Institutional Economic History of Douglass C. North*. Palgrave. 271 pp.
- Lal, Deepak (2001), *Unintended Consequences. The Impact of Factor Endowments, Culture, and Politics on Long-Run Economic Performance*. MIT Press. 287 pp.
- Lewis, A. (1988), "The Roots of Development Theory", Ch. 2 in H. Chenery and T. N. Srinivasan (eds.) *Handbook of Economic Development*, Vol 1, pp. 27-38, North Holland Press.
- Licht, A.N., C. Goldschmith and S. Schwartz (2007), "Culture Rules The foundations of the rule of law and other norms of governance," *Journal of Comparative Economics*, 35: 659-88.
- Lin, J. and J. Nugent (1995), "Institutions and Economic Development," Ch. 38 in J. Behrman and T. N. Srinivasan (eds.) *Handbook of Economic Development*, North Holland Press.
- Lowes, S., N. Nunn, J. Robinson and J. Weigel (2017), "The evolution of culture and institutions: Evidence from the Kuba Kingdom," *Econometrica* 85 (4): 1065-1091.
- Meier, G. M. and J.E. Rauch (2005), *Leading Issues in Economic Development*, CUP. 650 pp.
- Menard, C. and M.M. Shirley (2014), "The Contribution of Douglass North to New Institutional Economics," in S. Galiani and I. Sened (eds.), *Institutions, Property Rights, and Economic Growth. The Legacy of Douglass North*. CUP, pp. 11-29.
- Michalopoulos, S., L. Putterman and D. Weil (2016), "The influence of ancestral lifeways on individual economic outcomes in Sub-Saharan Africa." NBER WP 21907.
- North, D. C. (1981), *Structure and Change in Economic History*, Cambridge: Cambridge University Press.
- North, D. C. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge University Press. 152 pp.
- North, D. C. (2005), *Understanding the Process of Economic Change*. Princeton University Press. 187 pp.

North, D. C., J. Wallis, and B. Weingast (2009), Violence and Social Order. A Conceptual Framework for Interpreting Recorded Human History, CUP.

Sen, A. (1988), "The Concept of Development", Ch. 1 in H. Chenery and T. N. Srinivasan (eds.) Handbook of Economic Development, Vol 1, pp. 9-26, North Holland Press.

Sokoloff, K.L. and S.L. Engerman (2000) History Lessons Institutions factor endowments and paths of development in the new world, *Journal of Economic Perspectives*, 14 (3): 217-32.

Svensson, J. (2005). "Eight Questions about Corruption," *Journal of Economic Perspectives*, 19(3): 19-42.

Wallis, J. J. (2014), "Persistence and Change in Institutions: The Evolution of Douglass C. North," in S. Galiani and I. Sened (eds.), Institutions, Property Rights, and Economic Growth. The Legacy of Douglass North. CUP, pp. 30-49.

Video Lake Victoria – Darwin’s Nightmare

<https://www.youtube.com/watch?v=ySylryTVD90>

https://www.youtube.com/watch?v=g_6ZNbYdWzQ