

Course Code: ECON-425

Title: Institutional Economics

Credit Hours: 03

Prerequisite: Intermediate Microeconomics, Intermediate Macroeconomics and Development Economics-I

Course Objectives:

Almost all economic activities are moderated by formal or informal—norms, mores and conventions—institutions. At the same time, research emanating out of international financial institutions (IFIs) like the World Bank also highlight the crucial importance of sound institutions for economic growth, especially for emerging economies. Yet, there is no consensus on how to approach fundamental questions about institutions: what are institutions; from where do they come; and how do they change? In this course, we try to analyze these questions as well as look at some applied challenges like designing appropriate—efficient and fair—institutions for the global Commons.

Learning Outcomes:

By the completion of the course, students should be able to:

- understand what institutions are

- how they influence the economic decision making
- primary theoretical models explaining the characteristics of institutions

Course Contents:

<p>An Introduction to Institutional Economics:</p>	<p>The concept of institution: attempts at definition. Institutions and organizations. Functions of social institutions. Interaction situations and the types of norms: prisoners' dilemma-type situation; co-ordination situation; inequality situation. Enforcement characteristics. Institutional structure of a society. Formal and informal institutions. Sanctions for disobeying norms (self-enforcing sanctions, guilt, shame, informational sanctions, bilateral costly sanctions, multilateral costly sanctions). Conditions of norms' effectiveness. Interaction of formal and informal institutions. The limits of imitations of institutions from best-performing countries. The problems of their enforceability. The New Institutional Economics and modern institutionalism. Old institutional economics.</p>
<p>Property rights</p>	<p>Property rights in different legal traditions (common law and civil law traditions). The property rights approach: some basic concepts. Specification of property rights, the bundle of rights, partitioning of property rights, attenuation of property rights. Assigning of property rights: the internalization of externalities. The Coase Theorem. Critic of Coase (dynamic effects of alternative legal rules, wealth effect, distributional effects, strategic behavior and the problem of holding-out, endowment effect, sociological critic, unrealistic assumption about zero transaction costs). Communal property. Optimal group size. Private property. Moral and economic aspects of private property.</p>
<p>Contracts</p>	<p>The definition of a contract. Legal and economic approach to contracts. Freedom of contract. Bounded rationality and contractual incompleteness. Asymmetric information (hidden characteristics, hidden information/ hidden action, hidden intentions) and opportunistic behavior. Adverse selection and the closing of markets. Signalling, screening and self-selection. Asset plasticity and moral hazard. Principal-agent problem and agency costs. A simple principle-agent experiment in the classroom. Controlling and preventing moral hazard (controlling the agent, incentive contracts, bonding, do-it-yourself method).</p>
<p>The new institutional theory of the firm</p>	<p>Neoclassical theory of the firm. Explanations of the firm in the new institutional theory (F. Knight, R. Coase, A. Alchian and H. Demsetz, O. Williamson, O. Hart). The market and the firm. Comparative analyses of the alternative coordination forms.</p>

	Internal market and influence costs. The boundaries of the firm. Ownership structure of the firm. Separation of ownership and control in the open corporation.
The new institutional theory of the state:	Social mechanisms for constraining open access. Contractual theories of the state (Locke, Rousseau), Hobbes predatory theory of the state. North's model of the state. The regulatory role of the state in the Russian economy.

Teaching Methodology:

- To deliver lectures on topics included in course outline
- To require each student to solve independent assignments on topics included in the course.

Evaluation Criteria:

Evaluation Method	
Quizzes/Assignments	
Mid-Term Exam	
Final-Term Exam	

Recommended Books:

- Elinor Ostrom. Understanding Institutional Diversity. latest Edition, Princeton University Press.
- Marc Tool. Institutional Economics Theory, Method, Policy. Latest Edition.
- North D. (1990) Institutions, Institutional Change and Economic Performance. Cambridge University Press.
- Tullock G. Rent-seeking. (1987) In: The New Palgrave: A Dictionary of Economics. - L., Macmillan.

Recommended Research Articles:

- Wilber, C. K. and Harrison, R. S. 1978. "The Methodological Basis of Institutional Economics: Pattern Model, Storytelling, and Holism." Journal of Economic Issues 12 (March): 61 - 89.
- Rutherford, Malcolm 2001. "Institutional Economics: Then and Now." The Journal of Economic Perspectives 15.3 173-194
- Dugger, William. 1990 "The New Institutionalism: New But Not Institutionalist" Journal of Economic Issues, 24.2: 423-431
- North, Douglass 1991. "Institutions" The Journal of Economic Perspectives, 5.1: 97- 112.
- North, Douglass and Barry Weingast: The Evolution of Modern Institutions of Growth. In AEN: 129-164
- Afzal, A. (2017). "What does the Glorious Revolution really tell us about Economic Institutions?" IJPEE.