



DEPARTMENT OF ECONOMICS

MASTERS PROGRAMME IN ECONOMICS

INSTITUTIONAL ECONOMICS 871

(2022)

PRESENTERS:

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Introduction

Welcome to Institutional Economics 871! We trust that you will find the module interesting and useful. During the past three decades, the New Institutional Economics has become a vibrant branch of Economics — "a boiling cauldron of ideas", as Oliver Williamson put it in 2000. Since 1990, four institutional economists have won the Nobel Memorial Prize in Economic Sciences: Ronald Coase (1991), Douglass North (1993), Elinor Ostrom (2009) and Oliver Williamson (2009).

Douglass North defined institutions as follows:

Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g., rules, laws, constitutions), informal constraints (e.g., norms of behaviour, self-imposed codes and conduct), and their enforcement characteristics.

It should be clear from this definition that Institutional Economics is a wide-ranging field of study that cannot be covered in depth in one semester. This module focuses on two of the most important strands of the New Institutional Economics: research on the links between institutions and the development and performance of economies initiated by Douglass North, and research on the role of transaction costs in the organisation of economic activity initiated by Ronald Coase and developed further by Oliver Williamson.

Objectives and outcomes

The aim of this module is to introduce salient ideas in New Institutional Economics, including analytical tools that can be applied to study a wide range of issues in Microeconomics, Macroeconomics, Development Economics, Public Economics and Economic History.

Studying the contents of this module should enable you to:

- Develop an understanding of the nature of institutions and their influence on the evolution and performance of economies
- Develop an understanding of the nature of transaction costs and the links between transaction costs and organisation in the private and public sectors
- Use ideas derived from New Institutional Economics to explore a wide range of economic issues, including economic growth and development, the economic role of property rights, the functioning of firms and other organisations, and institutional change.

Module pages

All announcements, links to the prescribed material, lecture presentations and other relevant information will be posted on SUNLearn. You should visit the module pages regularly for updates.

Presenters' consultation hours

Dr Siebrits and Prof Du Plessis will be available for consultation by appointment. Please send emails to the addresses on the first page of this document to arrange meetings.

Lectures

Lectures will take place on Thursdays from 08:30–10:30 in the Room 225 in the CGW Schumann Building. The dates, themes and presenters of the lectures are provided below. We will announce any changes to the schedule in advance.

No	Date	Theme	Presenter(s)
1	21/07	Neoclassical Economics and institutions	Siebrits
2	28/07	An introduction to institutional economics	Du Plessis
3	04/08	The measurement of institutions	Du Plessis
4	11/08	Institutions and economic performance	Siebrits
5	18/08	Informal institutions	Siebrits
–	25/08	No lecture (mid-semester test)	–
6	01/09	Formal institutions (1): Political institutions	Siebrits
–	08/09	No lecture (recess)	–
7	15/09	Formal institutions II: Property rights	Siebrits
8	22/09	Formal institutions III: Transaction costs	Siebrits
9	29/09	Transaction cost economics I: Theory	Siebrits
10	06/10	Transaction cost economics II: Evidence	Siebrits
11	13/10	Interaction of formal and informal institutions	Du Plessis
12	20/10	Institutional change	Siebrits

Assessment

Your performance will be assessed by means of a mid-semester test (25%), an essay (25%), and a final examination (50%).

The **mid-semester test** will be written on 25 August 2022. The test will count 50 marks and will cover the contents of session 1 to 4. Please note the following:

- You are required to write the test on the scheduled date. If you are ill on the day, you must submit a valid medical certificate to the course coordinator (Dr Siebrits) within 48 hours after the scheduled time of the test. You will not be given the chance to write the sick test if you fail to submit a valid medical certificate by this deadline, and the module will be deemed incomplete on your academic record. No exception will be made to this rule.
- The sick test will be written on the same date as the module's examination in one sitting, with a break of 30 minutes between the two papers. The sick test will be the second and final assessment opportunity for material assessed in the mid-semester test. Medical certificates will not be accepted as excuses for missing the sick test. If you write the sick test, you also will not be allowed to submit a medical certificate to miss the examination, since the two assessments are written in one sitting.

The submission date for the **essays** will be 22 September 2022. The length limitation will be 1 500 words, and a penalty will apply if you omit a word count or if your essay has fewer than 1 350 or more than 1 650 words. You should present your essay in 1.5 line spacing and a 12-pitch font, and adhere to the usual requirements of academic writing. Please use SUNLearn to screen your essay for plagiarism via Turnitin and to submit it electronically. As always, plagiarism will be handled as a serious offence. The essay topics are as follows:

- 1) A critical assessment of the Old Institutional Economics.
- 2) Long-run effects of colonialism in Sub-Saharan Africa.
- 3) The influence of religious beliefs on economic outcomes.
- 4) Property rights and economic performance: The empirical evidence.
- 5) A transaction cost economics perspective on airline alliances.
- 6) A theoretical explanation for institutional change.
- 7) The relevance of institutional economics in understanding pricing and labelling of food products and wine.

You will be able to select a topic on SUNLearn once registrations for the first semester have closed.

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The **final examinations** in the second semester will take place in October and November. The exact date of the Institutional Economics 771 examination will be announced in due course. The paper, which will cover the contents of sessions 5 to 12, will count 100 marks. Please note the following:

- You are required to use the first examination opportunity in each module unless you are medically unfit to do so. If that is the case, you must submit a valid medical certificate to Ms Carina Smit (carina@sun.ac.za) within 48 hours of missing the assessment to gain access to the supplementary examination opportunity.
- The supplementary examination will be the final examination opportunity in each module. If supplementary examination opportunities are required, they will be scheduled in one calendar week in December.

Prescribed and other readings

This module has no textbook. The prescribed and other readings are listed below. We will discuss the readings listed as "Other" in class to introduce you to some empirical methods and results and to illustrate the real-world relevance of some theoretical ideas. However, the mid-semester test and final examination will be based only on the prescribed readings.

Session 1 (21 July 2022) Neoclassical economics and institutions	
Prescribed	<ul style="list-style-type: none">• Bowles, S. & H. Gintis. 2000. Walrasian economics in retrospect. <i>Quarterly Journal of Economics</i>, 115(4): 1411-1439.• Coase, R.H. 1992. The institutional structure of production. <i>American Economic Review</i>, 82(4): 713-719.• Kahneman, D. 2003. Psychological perspective on economics. <i>American Economic Review</i>, 93(2): 162-168.• Olson, M. 1996. Big bills left on the sidewalk. <i>Journal of Economic Perspectives</i>, 10(2): 3-24.
Other	<ul style="list-style-type: none">• Stigler, G.J. & G.S. Becker. 1977. De gustibus non est disputandum. <i>American Economic Review</i>, 67(2): 76-90.

Session 2 (28 July 2022) Introduction to institutional economics	
Prescribed	<ul style="list-style-type: none"> • Alston, L.J. 2008. The New Institutional Economics. In <i>The New Palgrave Dictionary of Economics</i> (Volume 6) (edited by S.N. Durlauf & L.E. Blume). Basingstoke: Palgrave Macmillan: 32-39. • Dugger, W.M. 1979. Methodological differences between institutional and neoclassical economics. <i>Journal of Economic Issues</i>, 13(4): 899-909. • Furubotn, E.G. & R. Richter. 2008. The New Institutional Economics – A different approach to economic analysis. <i>Economic Affairs</i>, 28(3): 15-23. • North, D.C. 1994. Economic performance through time. <i>American Economic Review</i>, 84(3): 359-368.
Session 3 (4 August 2022) The measurement of institutions	
Prescribed	<ul style="list-style-type: none"> • Gërxfhani, K and J. van Breemen. 2019. Social values and institutional change: an experimental study. <i>Journal of Institutional Economics</i>, 15(2): 259-280. • Skarbek, D. 2020 Qualitative research methods for institutional analysis. <i>Journal of Institutional Economics</i>, 16(4): 409-422. • Voigt, S. 2013. How (not) to measure institutions. <i>Journal of Institutional Economics</i>, 9(1): 1-26.
Other	<ul style="list-style-type: none"> • Dimitruk, K., S.W.F. du Plessis, and S.A. du Plessis. 2021. De jure property rights and costs of administration: evidence from land specification in the Boer Republics. <i>Journal of Institutional Economics</i>, 17(5): 764-780.
Session 4 (11 August 2022) Institutions and economic performance	
Prescribed	<ul style="list-style-type: none"> • Chang, H-J. 2011. Institutions and economic development: Theory, policy and history. <i>Journal of Institutional Economics</i>, 7(4): 473-498. • Levine, R. 2005. Law, endowments and property rights. <i>Journal of Economic Perspectives</i>, 19(3): 61-88. • Rodrik, D., A. Subramanian & F. Trebbi. 2004. Institutions rule: The primacy of institutions over geography and integration in economic development. <i>Journal of Economic Growth</i>, 9(2): 131-165.

Session 5 (18 August 2022) Informal institutions	
Prescribed	<ul style="list-style-type: none"> • Alm, J. & B. Torgler. 2006. Cultural differences and tax morale in the United States and in Europe. <i>Journal of Economic Psychology</i>, 27(2): 224-246. • Bowles, S. 2014. Nicolò Machiavelli and the origins of mechanism design. <i>Journal of Economic Issues</i>, 48(2): 267-278. • Fernandez, R. 2007. Women, work and culture. <i>Journal of the European Economic Association</i>, 5(2-3): 305-332. • Voigt, S. 2018. How to measure informal institutions. <i>Journal of Institutional Economics</i>, 14(1): 1-22.
Session 6 (1 September 2022) Formal institutions I: Political institutions	
Prescribed	<ul style="list-style-type: none"> • Acemoglu, D. & J.A. Robinson. 2006. Paths of economic and political development. In <i>The Oxford Handbook of Political Economy</i> (edited by B.R. Weingast & D.A. Wittman). Oxford: Oxford University Press: 673-692. • Dzionek-Kozłowska, J. & R. Matera, 2016. Institutions without culture. <i>Lodz Economics Working Papers 9/2016</i>. Lodz: University of Lodz. • North, D.C., J.J. Wallis & B.R. Weingast. 2009. Violence and the rise of open-access orders. <i>Journal of Democracy</i>, 20(1): 55-68.
Other	<ul style="list-style-type: none"> • Rodrik, D. 2000. Institutions for high-quality growth. <i>Studies in Comparative International Development</i>, 35(3): 3-31.
Session 7 (15 September 2022) Formal institutions II: Property rights	
Prescribed	<ul style="list-style-type: none"> • Alston, L.J. & B. Mueller. 2005. Property rights and the state. In <i>The Handbook of New Institutional Economics</i> (edited by C. Menard & M. Shirley). Norwell, MA: Kluwer Academic: 573-590. • Schlager, E. & E. Ostrom. 1992. Property-rights regimes and natural resources: A conceptual analysis. <i>Land Economics</i>, 68(3): 249-262. • Weingast, B.R. 2005. The constitutional dilemma of economic liberty. <i>Journal of Economic Perspectives</i>, 19(3): 89-108.
Other	<ul style="list-style-type: none"> • Kerekes, C.B. & C.R. Williamson. 2008. Property rights, capital formation, and development. <i>Journal of Institutional Economics</i>, 4(3): 299-325.

Session 8 (22 September 2022) Formal institutions III: Transaction costs	
Prescribed	<ul style="list-style-type: none"> • Furubotn, E.G. & R. Richter. 2005. Transaction costs. In <i>Institutions and Economic Theory</i> (edited by E. Furubotn & R. Richter). Second edition. Ann Arbor: University of Michigan Press: 47-77. • North, D.C. 1987. Government and the cost of exchange in history. <i>Journal of Economic History</i>, 44(2): 255-264. • Caballero, G. & D. Soto-Onate. 2016. Why transaction costs are so relevant in political governance? A new institutional survey. <i>Brazilian Journal of Political Economics</i>, 36(2): 330-352.
Other	<ul style="list-style-type: none"> • Dollery, B. & W.H. Leong. 1998. Measuring the transaction sector in the Australian economy, 1911-1991. <i>Australian Economic History Review</i>, 38(3): 207-231.
Session 9 (29 September 2022) Transaction cost economics I: Theory	
Prescribed	<ul style="list-style-type: none"> • Madhok, A. 2002. Ronald Coase, the transaction cost and resource-based theories of the firm and the institutional structure of production. <i>Strategic Management Journal</i>, 23(6): 535-550. • Menard, C. 2006. Hybrid organization of production and distribution. <i>Revista de Análisis Económico</i>, 21(2): 25-41. • Williamson, O.E. 2002. The theory of the firm as governance structure. <i>Journal of Economic Perspectives</i>, 16(3): 171-195.
Other	<ul style="list-style-type: none"> • Monteverde, K. & D.J. Teece. 1982. Supplier switching costs and vertical integration in the automobile industry. <i>Bell Journal of Economics</i>, 13(1): 206-213
Session 10 (6 October 2022) Transaction cost economics II: Empirical evidence	
Prescribed	<ul style="list-style-type: none"> • David, R.J. & S-K. Han. 2004. A systematic assessment of the empirical support for transaction cost economics. <i>Strategic Management Journal</i>, 25(1): 39-58. • Joskow, P.L. 1987. Contract duration and relationship-specific investments. <i>American Economic Review</i>, 77(1): 168-185. • Klein, P.G. 2005. The make-or-buy decision. In <i>The Handbook of New Institutional Economics</i> (edited by C. Ménard & M.M. Shirley). Dordrecht: Springer: 435-464.
Other	<ul style="list-style-type: none"> • Forbes, S.J. & M. Lederman. 2009. Adaptation and vertical integration in the airline industry. <i>American Economic Review</i>, 99(5): 1831-1849.

Session 11 (13 October 2022) Interaction of formal and informal institutions	
Prescribed	<ul style="list-style-type: none"> • Du Plessis, S.W.F., A.I. Jansen & F.K. Siebrits. 2020. The limits of laws: traffic law enforcement in South Africa. <i>South African Journal of Economic and Management Sciences</i>, 23(1): 1-11. • Pejovich, S. 1999. Effects of the interaction of formal and informal institutions on social stability and economic development. <i>Journal of Markets and Morality</i>, 2(2): 164-181.
Session 12 (20 October 2022) Institutional change	
Prescribed	<ul style="list-style-type: none"> • Brousseau, E., P. Garrouste & E. Reynaud. 2011. Institutional change. <i>Journal of Economic Behavior and Organization</i>, 79(1-2): 3-19. • North, D.C. 2005. Institutions and the performance of economies over time. In <i>The Handbook of New Institutional Economics</i> (edited by C. Ménard & M.M. Shirley). Dordrecht: Springer: 21-30. • Young, H.P. 1996. The economics of convention. <i>Journal of Economic Perspectives</i>, 10(2): 105-122.