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DEPARTMENT OF ECONOMICS
MASTERS PROGRAMME IN ECONOMICS
INSTITUTIONAL ECONOMICS 871
(2020)

PRESENTERS:

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INTERNAL MODERATOR:

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INTRODUCTION

Welcome to the Institutional Economics module! We trust that you will find it 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 leading institutional economist 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 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, aspects of the process of economic policymaking, and institutional change.

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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

Both presenters will be available for consultation by appointment.

LECTURES

Lectures will take place on Thursdays from 08:30–10:30 in the Room 205 in the CGW Schumann Building. The dates and themes of the lectures are provided below. We will announce any changes to the schedule in advance.

No	Date	Theme	Presenter(s)
1	06/02	Neoclassical Economics and Institutions	Siebrits
2	13/02	An Introduction to Institutional Economics	Du Plessis
–	20/02	No Lecture	–
3	27/02	The Measurement of Institutions	Du Plessis
4	05/03	Institutions and Economic Performance	Du Plessis/Siebrits
5	12/03	Informal Institutions	Siebrits
6	19/03	Formal Institutions I: Political Institutions	Siebrits
–	26/03	No Lecture (Recess)	–
7	02/04	Formal Institutions II: Property Rights	Siebrits
8	09/04	Formal Institutions III: Transaction Costs	Siebrits
9	16/04	Interaction of Formal and Informal Institutions	Du Plessis
10	23/04	Transaction Cost Economics I: Theory	Siebrits
–	30/04	No Lecture (Postgraduate Recess)	–
11	07/05	Transaction Cost Economics II: Evidence	Siebrits
12	14/05	Institutional Change	Siebrits

ASSESSMENT

Your performance will be assessed by means of a semester test (20%), an essay (30%) and the final examination (50%).

The **semester test** will be written on 16 March 2020. The test will count 60 marks and will cover the contents of sessions 1 to 4. *If you cannot write the test on that day you will have to take another test on the first four sessions on the day of the Institutional Economics examination. You will not be allowed to write the second test to improve your marks if you take the test on 16 March.*

The submission date for the **essays** is 20 April 2020. Essays should be between 1 500 and 2 000 words in length and should comply with the standard requirements of academic writing. Please submit your essay in hard-copy format and screened via Turnitin. Note that plagiarism is a serious offense. 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. An institutional analysis of federalist political structures.
5. Property rights and economic performance: The empirical evidence.
6. A critical review of the transaction cost approach to political analysis.
7. A transaction cost economics perspective on airline alliances.
8. A theoretical explanation for institutional change.

A maximum of five students may write on each topic. Topics will be allocated on a first-come, first-served basis. Please send your first and second choices to sophia@sun.ac.za before or on 24 February 2020. The final allocation of essay topics will be made available on the module webpages.

The date for the **final examination** will be announced in due course. The paper will count 100 marks and will cover the contents of sessions 5 to 12. Copies of past semester test and examination papers will be made available on the module webpages before these assessment opportunities.

PRESCRIBED AND OTHER READINGS

This module has no textbook. The prescribed 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, you will not be tested or examined on these readings.

Session 1 (6 February 2020) 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 (13 February 2020) 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. • Dugger, W.M. 1990. The New Institutionalism: New but not institutionalist. <i>Journal of Economic Issues</i>, 24(2): 423-431. • 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.
Other	<ul style="list-style-type: none"> • Acemoglu, D. & J.A. Robinson. 2015. The rise and decline of general laws of capitalism. <i>Journal of Economic Perspectives</i>, 29(1): 3-28.

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Session 3 (27 February 2020) The Measurement of Institutions	
Prescribed	<ul style="list-style-type: none"> • Dimitruk, K., S.W.F du Plessis & S.A. du Plessis 2020. De jure property rights and costs of administration: evidence from land specification in the Boer Republics. Unpublished paper. • Rommel, J. 2015. What can economic experiments tell us about institutional change in social-ecological systems? <i>Environmental Science and Policy</i>, 53(B): 96-104. • 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"> • Anderson, S., S.W.F. du Plessis, S. Parsa & J.A. Robinson. 2018. Local female political representation in Sub-Saharan Africa. Unpublished working paper.
Session 4 (5 March 2020) 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 (12 March 2020) 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

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Session 6 (19 March 2020) 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.
	<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 (2 April 2020) 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 (9 April 2020) 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.

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Session 9 (16 April 2020) Interaction of Formal and Informal Institutions	
Prescribed	<ul style="list-style-type: none"> • Du Plessis, S.W.F., A.I. Jansen & F.K. Siebrits. 2019. The limits of laws: traffic law enforcement in South Africa. <i>Stellenbosch Working Papers 08/19</i>. Stellenbosch: Stellenbosch University (Department of Economics & Bureau of Economic Research). • 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.
Other	<ul style="list-style-type: none"> • Gërxfhani, K. & J. van Breemen. 2019. Social values and institutional change: an experimental study. <i>Journal of Institutional Economics</i>, 15(2): 259-280.
Session 10 (23 April 2020) 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 11 (7 May 2020) 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.

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Session 12 (14 May 2020) 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. • Ostrom, E. & X. Basurto. 2011. Crafting analytical tools to study institutional change. <i>Journal of Institutional Economics</i>, 7(3): 317-343.
Other	<ul style="list-style-type: none"> • Young, H.P. 1996. The economics of convention. <i>Journal of Economic Perspectives</i>, 10(2): 105-122.