



Department of Economics

**Economics 381
(12084 - 381)
Institutional Economics
Public Economics
Environmental Economics**

**Institutional Economics
Sub-Module Outline
2020**

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1. INTRODUCTION

Welcome to the Institutional Economics sub-module of Economics 381! I trust that you will find it interesting and useful. This document contains the sub-module outcomes, lists the prescribed material, and provides a provisional lecture schedule with the readings and outcomes of each session. Please use it with the general module framework for Economics 381, which contains important information about assessment and administrative issues.

2. SUB-MODULE AIM AND OUTCOMES

Institutional Economics has to do with formal institutions (e.g. laws, policy rules and contracts) and informal institutions (e.g. norms and habits) and their effects on economic behaviour and development. This part of the Economics 381 module provides an introduction to the most important concepts and themes in Institutional Economics. Its aims are to complement other parts of the undergraduate Economics curriculum and to provide preparation for further study of and research in Institutional Economics.

After the successful completion of this part of the module you should be able to:

- explain the nature and main types of institutions
- discuss the role of institutions in economic growth and development
- discuss the relationship between formal and informal institutions and its policy implications
- explain the role of institutions in the economic development of African countries.

The knowledge gained by studying the contents of this part of the module makes it possible to analyse the effects of specific institutions and sets of institutions, and to suggest institutional reforms that might improve countries' economic performance.

3. PRESCRIBED MATERIAL

There is no prescribed book for this part of the module. The prescribed material consists of the following papers:

- Acemoglu, D. 2003. Root causes. *Finance and Development*, 40(2): 27-30.
- Acemoglu, D. & J.A. Robinson. 2010a. The role of institutions in growth and development. *Review of Economics and Institutions*, 1(2): 1-33.
- Acemoglu, D. & J.A. Robinson. 2010b. Why is Africa poor? *Economic History of Developing Regions*, 25(1): 21-50.
- Eggertsson, T. 1990. The role of transaction costs and property rights in economic analysis. *European Economic Review*, 34: 450-457.
- Finighan, R. 2015. Beyond nudge: The potential of behavioural policy. *Policy Briefs Series No. 4/15*. Melbourne: Melbourne Institute for Applied Economic and Social Research: 1-13.

- Fosu, A.K. 2017. Governance and development in Africa: A concise review. *Global Development Institute Working Paper No 2017-008*. Manchester: University of Manchester (Institute for Global Development).
- Nganje, F. 2015. Moving beyond Africa's crisis of institutions. *Governance and APRM Programme Occasional Programme No 222*. Johannesburg: South African Institute for International Affairs.
- North, D.C. 1991. Institutions. *Journal of Economic Perspectives*, 5(1): 97-112.
- North, D.C. 1992. Institutions and economic theory. *American Economist*, 36(1): 3-6.
- Pejovich, S. 1999. Effects of the interaction of formal and informal institutions on social stability and economic development. *Journal of Markets and Morality*, 2(2): 164-181.
- Rodrik, D. & A. Subramanian. 2003. The primacy of institutions (and what this does and does not mean). *Finance and Development*, 40(2): 31-34.
- Sachs, J.D. 2003. Institutions matter, but not for everything. *Finance and Development*, 40(2): 38-41.

4. OTHER READING MATERIAL

The following paper is not prescribed, but will be used to introduce a class discussion:

- Du Plessis, S.W.F., A.I. Jansen & F.K. Siebrits. 2019. The limits of laws: Traffic law enforcement in South Africa. *Stellenbosch Working Papers 08/19*. Stellenbosch: Stellenbosch University (Department of Economics & Bureau of Economic Research).

5. LECTURE SCHEDULE

5.1. THEME 1: INTRODUCTION

Session 1: Module overview and introduction to Institutional Economics (05/02/2020)

Prescribed reading:

- None

Session 2: The nature and role of institutions (1) (07/02/2020)

This session should enable you to:

- Explain the role of institutions in "conventional" Economics
- Explain why institutions are needed in real-world economies
- Define institutions and distinguish between formal and informal institutions
- Distinguish between organisations and institutions
- Explain institutional change
- Explain how Institutional Economics enriches economic analysis

Prescribed reading:

- North (1992)

Session 3: The nature and role of institutions (2) (12/02/2020)

This session should enable you to:

- Explain what property rights and transaction costs are
- Discuss the economic role of property rights
- Discuss the economic role of transaction costs
- Explain the aims of institutional analysis

Prescribed reading:

- Eggertsson (1990)

5.2. THEME 2: INSTITUTIONS, GROWTH AND DEVELOPMENT

Session 4: Institutions and development in history (14/02/2020)

This session should enable you to:

- Use productivity and transaction costs as criteria to distinguish among three types of exchange
- Explain why transaction costs have grown rapidly in modern market economies
- Name examples of historical institutions that did not evolve
- Explain why modern economic growth started in Europe
- Explain why only some countries choose good institutions

Prescribed reading:

- North (1991)

Session 5: The "deep determinants" of economic development (19/02/2020)

This session should enable you to:

- Distinguish between the proximate and deep determinants of economic performance
- Explain why institutional economists reject the proposition that geography is the main determinant of economic performance
- Summarise Sachs's ideas about geography and economic performance
- Indicate whether institutions and geography are complementary or mutually exclusive deep determinants of economic performance

Prescribed reading:

- Acemoglu (2003)
- Rodrik & Subramanian (2003)
- Sachs (2003)

Session 6: Institutions, growth and development (1) (21/02/2020)

This session should enable you to:

- Explain why the colonial era might help us to understand the role of institutions
- Summarise Acemoglu and Robinson's attempt to prove that institutions determine economic performance
- Outline and apply Acemoglu and Robinson's dynamic framework that links economic outcomes to political and economic institutions
- Explain why so many countries choose and retain bad institutions

Prescribed reading:

- Acemoglu & Robinson (2010a)

Special session: The 2020/21 Budget (24/02/2020)

Prescribed reading:

- None

Session 7: Institutions, growth and development (2) (26/02/2020)

This session should enable you to:

- Explain why political institutions should be taken into account when economic institutions are reformed
- Explain why reforms to de jure political institutions may be inadequate
- Explain why it is necessary to combine reforms to economic institutions with changes in the incentives of elites

Prescribed reading:

- Acemoglu & Robinson (2010a)

5.3. THEME 3: INFORMAL INSTITUTIONS

Session 8: The interaction between formal and informal institutions (28/02/2020)

This session should enable you to:

- Name the mechanisms by means of which informal institutions influence the effectiveness of formal institutions
- Name possible relationships between formal and informal institutions
- State and apply the interaction thesis
- Discuss the emergence of and change in informal institutions
- Discuss the emergence of and change in formal institutions

Prescribed reading:

- Pejovich (1999)

Session 9: Policies to change behaviour (04/03/2020)

This session should enable you to:

- Distinguish between regulation, incentives and nudges
- Name the main risks of regulation
- Discuss the advantages and disadvantages of price incentives
- Discuss the potential of nudges to improve behaviour

Prescribed reading:

- Finighan (2015)

Session 10: Discussion of road safety policy in South Africa (06/03/2020)

Reading (not prescribed):

- Du Plessis, Jansen & Siebrits (2018)

5.4. THEME 4: INSTITUTIONS AND DEVELOPMENT IN AFRICA

Session 11: Historical perspective on African development (1) (11/03/2020)

This session should enable you to:

- Explain the importance of state formation
- Discuss the connection between state formation and the development of institutions in African countries
- Explain the influence of the slave trade on the development of institutions in African countries
- Explain the influence of colonialism on the development of institutions in African countries

Prescribed reading:

- Acemoglu & Robinson (2010b)

Session 12: Historical perspective on African development (2) (13/03/2020)

This session should enable you to:

- Discuss the institutional weaknesses of most African countries at independence
- Explain the contribution of political and economic institutions to the poor economic performance of many African countries after independence

Prescribed reading:

- Acemoglu & Robinson (2010b)
- Nganje (2015)

Session 13: Institutions and development in Botswana and Zambia (18/03/2020)

Prescribed reading:

- None

Session 14: Institutions and future economic development in Africa (20/03/2020)

This session should enable you to:

- Discuss recent developments in the political and economic governance of African countries
- Discuss the need for further institutional reforms in African countries
- Discuss lessons for other African countries from the development experience of Botswana

Prescribed reading:

- Fosu (2017)
- Nganje (2015)