



## Department of Economics

---

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

---

**Institutional Economics  
Sub-Module Framework  
2022**

# Contents

1. Introduction .....	3
2. Sub-module aim and outcomes.....	3
3. Prescribed material .....	3
4. Other reading material.....	4
5. Lecture schedule .....	4
5.1. Theme 1: Introduction.....	4
5.2. Theme 2: Formal institutions .....	5
5.3. Theme 3: Informal institutions .....	7

## 1. INTRODUCTION

Welcome to the Institutional Economics part 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 lecture schedule with the outcomes and readings of each session. You should use it with the general module framework for Economics 381, which contains information about administrative and assessment 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 some of the 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:

- Use theoretical ideas and historical evidence to explain the nature and roles of institutions;
- distinguish between formal and informal institutions;
- discuss the influence of formal institutions on economic growth;
- explain the economic roles of property rights and transaction costs;
- discuss the economic effects of informal institutions; and
- discuss interaction effects between formal and informal institutions and their policy implications.

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 Economics 381 module. The prescribed material consists of the following journal articles and other papers:

- Acemoglu, D. 2003. Root causes. *Finance and Development*, 40(2): 27-30.
- Acemoglu, D. & J.A. Robinson. 2010. The role of institutions in growth and development. *Review of Economics and Institutions*, 1(2): 1-33.
- Alston, L.J. 2008. The New Institutional Economics. In *The New Palgrave Dictionary of Economics* (Volume 6) (edited by S.N. Durlauf & L.E. Blume). Basingstoke: Palgrave Macmillan: 32-39.
- Bostan, I., F. Clipa, F. & R.I. Clipa. 2016. Informal institutions and economic performance. *Knowledge Horizons – Economics*, 8(2): 53-58.
- 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.

- La Porta, R., F. Lopez-de-Silvanes, A. Shleifer & R. Vishny. 2017. Legal origins. In *The Long Economic and Political Shadow of History (Volume I): A Global View* (edited by S. Michalopoulos & E. Papaioannou). London: CEPR Press: 89-97.
- North, D.C. 1991. Institutions. *Journal of Economic Perspectives*, 5(1): 97-112.
- North, D.C. 1992. Institutions and economic theory. *The 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
- Woolcock, M. 2001. The place of social capital in understanding social and economic outcomes. *Canadian Journal of Policy Research*, 2(1), 11-17.

Links to all the prescribed readings are available on the Economics 381 module page on SUNLearn.

#### 4. OTHER READING MATERIAL

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

- S.W.F. du Plessis, A.I. Jansen & F.K. Siebrits. 2020. The limits of laws: Traffic law enforcement in South Africa. *South African Journal of Economic and Management Sciences*, 23(1): 1-11.

#### 5. LECTURE SCHEDULE

##### 5.1. THEME 1: INTRODUCTION

Session 1 (16/02/2022)

Module overview and introduction to Institutional Economics

No prescribed readings

Session 2 (18/02/2022)

Institutional Economics and "conventional" Economics

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; and
- explain how Institutional Economics enriches economic analysis.

Prescribed reading:

- North (1992)

## 5.2. THEME 2: FORMAL INSTITUTIONS

Session 3 (23/02/2022)

A conceptual framework for analysing the economic role of formal institutions

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; and
- use Lee Alston's conceptual framework to explain how institutions influence economic performance.

Prescribed reading:

- Alston (2008)

Session 4 (25/02/2022)

Transaction costs and long-run economic performance

This session should enable you to:

- Use productivity and transaction costs as criteria to distinguish among three types of exchange;
- Use Douglass North's ideas to explain why transaction costs have grown so much in modern market economies;
- name examples of historical institutions that did not evolve;
- explain why modern economic growth started in Europe; and
- explain why only some countries choose good institutions.

Prescribed reading:

- North (1991)

Session 5 (02/03/2022) – Dr Siebrits

Formal institutions as "deep determinants" of economic performance

This session should enable you to:

- Distinguish between proximate and deep determinants of economic outcomes;
- explain why institutional economists reject the proposition that geography is the main determinant of economic performance;
- summarise Jeffrey Sachs's ideas about the influence of geography on economic performance; and

- 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 (04/03/2022)

Political institutions, economic institutions and economic performance (1)

This session should enable you to:

- Explain why the colonial era might help us to understand the role of institutions;
- summarise Daron Acemoglu and James Robinson's attempt to prove that institutions determine economic performance;
- discuss Daron Acemoglu and James Robinson's dynamic framework that links economic outcomes to political and economic institutions and apply it to predict economic outcomes in countries with certain combinations of political and economic institutions; and
- explain why so many countries choose and retain bad institutions.

Prescribed reading:

- Acemoglu & Robinson (2010)

Session 7 (09/03/2022)

Political institutions, economic institutions and economic performance (2)

This session should enable you to:

- Explain why political institutions should be taken into account when attempts are made to reform economic institutions;
- explain why reforms to de jure political institutions may be inadequate to improve economic institutions and outcomes; and
- explain why it is necessary for attempts to improve economic outcomes to combine reforms to economic institutions with reforms that change the incentives of elites.

Prescribed reading:

- Acemoglu & Robinson (2010)

Session 8 (11/03/2022)

Legal institutions and economic outcomes

This session should enable you to:

- Distinguish between legal systems based on common law and civil law;

- summarise Rafael la Porta et al.'s findings about economic outcomes in countries with legal systems based on common law and civil law; and
- discuss Rafael la Porta et al.'s explanation for these findings.

Prescribed reading:

- La Porta, Lopez-de-Silanes, Shleifer & Vishny (2017)

### **5.3. THEME 3: INFORMAL INSTITUTIONS**

#### Session 9 (16/03/2022)

##### Economic effects of informal institutions

This session should enable you to:

- Outline the evolution of the economic role of informal institutions;
- explain how culture influences economic performance;
- explain what social capital is; and
- discuss the effects of social capital on economic outcomes.

Prescribed reading:

- Bostan, Clipa & Clipa (2016)
- Woolcock (2001)

#### Session 10 (18/03/2022)

##### The interaction between formal and informal institutions

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; and
- discuss the emergence of and change in formal institutions.

Prescribed reading:

- Pejovich (1999)

#### Session 11 (23/03/2022)

##### Policy measures to change behaviour

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; and
- discuss the potential of nudges to improve behaviour.

Prescribed reading:

- Finighan (2015)

Session 12 (25/03/2022)

Discussion of road safety policy in South Africa

Reading (not prescribed):

- Du Plessis, Jansen & Siebrits (2020).