Econ 479: Economics of Governance and Institutions

All economic activity takes place within a framework of institutions, including both formal laws and contracts, and informal norms and conventions. Institutions constrain individual behavior and thereby affect resource allocation, income distribution, learning, and economic growth. This course introduces recent approaches to the study of institutions in economics and political science, with particular emphasis on game-theoretic applications to economic history and development, and to theories of institutional stability and change.

The class will be discussion-based, so regular attendance is mandatory and your grade will be partly (30%) based on attendance and class participation. So that our discussions can be productive, it is crucial that you do the reading for each class in advance. To provide incentives toward this end, a response (200–300 words) is due before each class; this should be in the form of a contribution to an online discussion on the course Moodle website and should be posted, at the latest, by 9pm on the night before class, so that others have an opportunity to read and respond. These discussion responses are worth 30% of your final grade. Don’t just summarize the paper. For example, you might discuss some of the following:

- What is the main hypothesis or theoretical argument? What was unclear to you?
- Is the question the paper addresses important? Why/why not?
- What assumptions are made? Are they reasonable? Are they necessary?
- How is the argument supported empirically?
- Is the argument convincing? Why/why not? What are its strengths/limitations?
- How is the argument related to other papers we have read, or other arguments that you may have come across elsewhere?
- Can you think of other applications or projects based on the paper’s ideas? Or interesting extensions or modifications of the model?

The other written course requirement is a research paper, worth 40% of your total grade, on any topic of your choice broadly related to the material covered in class. I will work with each of you individually to help you identify a topic and an approach. The goal is not to create a polished piece of original research, but simply to find an interesting idea (which might be quite simple) and begin to think about how to apply the tools from this course to study it. Shortly after spring break, we will devote one class to brief 5-minute presentations of research proposals. The final paper (12-15 double-spaced pages) is due by the end of classes.
**Research project:** Research begins with *a question*: something you don’t know the answer to but would like to. The goal of research is to gain new insight into your question, but you do not need to begin with an answer; begin with a question. For a promising research topic, you are looking for an interesting, meaningful question that is *answerable* but *unanswered* (or at least not fully answered). Generally you should be looking to explain a puzzling pattern of behavior rather than a single important event; and rather than simply describing a phenomenon of interest you should be looking to investigate its causes or consequences. You should also be able to articulate an answer to the “so what” question: why others should believe that understanding the answer to this question matters. However, finding a topic is also an open-ended process: begin with what you are interested in; your question itself will likely evolve and become more precise as you investigate the theories (ideas about the motivations for and consequences of human behavior, and how the world works) and empirical evidence (of various kinds: e.g., anecdotal/biographical, historical, statistical) that will help you refine your question and seek answers. Periodically, you may find yourself becoming puzzled, confused, disheartened, asking dumb questions, and realizing that you have wasted a lot of effort doing something that turned out to be unnecessary/misguided. That’s all good; keep going.

Your goal, broadly, is to produce a quantity of research that could be written up as a 15-page term paper. However, there is no set length or format requirement; content is more important than word count, and this is about the intellectual journey at least as much as it is about the end product. Accordingly, evaluation will be based on your process as well as product. We will adopt a loosely structured approach as described below, which may be liberally adapted to fit as your project unfolds. A two-page summary of your progress is due every 3 weeks as detailed below; we will periodically meet individually to discuss your project and progress.

2/7: **Identify three possible topics:** What is puzzling about the topic? Why do you consider the questions important? How would you persuade others that they should care about these questions? Meet to discuss during week 3.

2/28: **Narrow down to one topic** and write an *annotated bibliography* outlining the contributions of four papers related to this topic. This is the genesis of what will eventually be a larger literature review. Meet to discuss during week 6.

3/28: **Theory and Evidence.** Gain mastery of an existing model relevant to your question and begin to think about how to apply or modify it to address your question.

How you might test/evaluate your argument? What would ideal evidence look like? What kind of evidence is available? How reliable is it? Meet to discuss during week 9.

4/18: **Putting it all together:** Are your theoretical assumptions and results reasonable in the light of the evidence? Is your model useful for explaining incentives/motivation/outcomes, as compared with a rhetorical/descriptive argument? Does the evidence provide support for one theory over other possible theories? Meet to discuss during week 12.

5/6: **Final paper:** due on the last day of class.
Readings

The following is a draft of the reading list. The required reading for each class is underlined; optional suggestions for further reading on related topics are given in italics. Links to all required readings will be posted on the course website.

A. Introduction


B. Private order

and
and


C. Commons and Anticommons


Ostrom, Governing the Commons, Cambridge Univ. Press, 1990.


Eggertsson, “No experiments, monumental disasters: Why it took a thousand years to develop a specialized fishing industry in Iceland”, Journal of Economic Behavior and Organization, 1996.


and


David, “The Economic Logic of “Open Science” and the Balance between Private
D. Trust, Communities, and Culture


E. Firms


F. The State: Anarchy and Order


Weingast, “Self-enforcing constitutions with an application to America’s first century”


G. The State: Elections, Preference Aggregation and Legislation


Londregan and Vindigni, “Voting as a Credible Threat”.

Przeworski, “Self-Enforcing Democracy”


Geddes, “Minimum-Winning Coalitions and Personalization in Authoritarian Regimes”


Shepsle and Weingast, “Positive Theories of Congressional Institutions” (a survey), Legislative Studies Quarterly, May 1994.

H. The State: Agency problems and Corruption


iii) Basu, “Why, for a Class of Bribes, the Act of Giving a Bribe should be Treated as Legal”, working paper, 2011.

and


and


I. States and Markets


Montinola, Qian and Weingast: “Federalism, Chinese Style”. World Politics, 1995

Kornai, Maskin and Roland, “Understanding the Soft Budget Constraint”.

J. War and Revolution


Some examples of some previous paper topics in Econ 479

- Threshold Models and Standing Ovations
- Yertle the Turtle: Innocent Anecdote or Involved Allegory?
- Democratic elections in tribal societies
- Differing Church Structures Across Denominations: How participation and non-profit constraints affect institutional reforms
- Payments for ecosystem services and the commons
- Faculty Governance and the Committee of Six
- Trust, Coordination and Competition: Analysis of the Dynamics of Credit markets
- Ghana from Nkrumah to Rawlings: A Game theoretic perspective on a country’s political instability and democratization
- A model of plea bargaining
- The origins and persistence of Corruption in Russia
- A model of witch hunts
- Towards a theory of dorm damage
- The economics of being late
- Strategic behavior in the Israel-Palestine conflict
- Explaining the resource curse
- Asymmetric bilateral trade negotiations
- Federalism
- Famine
- The Indian Arranged Marriage system
- A game theoretic interpretation of the initial phases of colonization
- Guns, forts and butter: an intertemporal model of resource allocation in an anarchic world
- The rational relationship
- Stock options and moral hazard
- Optimal legal institutions and higher education
- Organized crime
- God the Punisher: Religion as a Monitoring and Punishment Mechanism to Enforce Cooperative Equilibria in Life’s Prisoner’s Dilemma
- The economics of open source software
- Systemic Risk, Capital Mobility, and the Failure of International Regulatory Harmonization
- Zaibatsu, Keiretsu, and Beyond: A New Institutional View of the Japanese Economy
- Rule enforcement in Ultimate Frisbee
- A neuroeconomics approach to rationality and trust
- Law and Commerce in Traditional China and Europe compared: a review of the “great divergence” debate
- A rational explanation for Stalin’s “blunder” before Operation Barbarossa
- The puzzle of “leftover” women: Gender imbalance and mating gradient in the Chinese marriage market and policy implications.