

Ambo University Woliso campus
School of Graduate Studies
Department of Economics

Course Title: **Institutional Economics**

Course Code: Econ 511

Credit Hours: 3hrs/ 5 ECTS

Prerequisite: None

Delivery Modalities: Lecture, Discussion and paper presentation

Course Descriptions and objectives

The course is designed to give an introduction to the fields of new institutional economics with a focus both on the basic theory and on contemporary empirical research. We will look on how institutions shape the incentives of economic agents, and how this influences economic outcomes in various contexts. Students will also study the emergence of institutions, and compare institutionalist theories of economic development with theories that place other factors at the center of their analysis.

The objective of the course is to give students a solid foundation in the basic concepts of new institutional economics, as well as a first impression and understanding of the topics studied and the methodologies used at the frontier of institutional research today. Throughout the course, students will learn how to read research papers, how to judge the quality of a research paper, and how to read and interpret regression outputs and empirical results related to institutions.

Course outlines

Chapter 1: Introduction

1. The evolution of Institutional Economics
2. Core Assumptions of NIE
3. What are institutions?
4. Example: Ethiopian case

5. Classifications of Institutions
6. Institutions and organizations

I. New Institutional Economics: The Basic Theory

Chapter 2: Transaction costs

1. Transaction costs
2. Contract enforcement and property rights
3. Enforcement mechanisms
4. How to reduce transaction costs?
5. Transaction Costs and Linkage Mechanisms
6. Transaction Costs and Strategy

Chapter 3: Property rights

1. Common Property Problem
2. Coase Theorem (1960)
3. Alternative approaches to Coase Theorem
4. Criteria for efficiency of property rights
5. Economic advantages of property rights
6. Changing property rights

Chapter 4: Contracts (reading assignment)

Chapter 5: The Markets and the State

1. Introduction
2. State ideologies
3. The changing role of state in the economy
4. Why state interventions?
5. Market failure and state failure: which is more detrimental?

II. Institutions and Economic Development

Chapter 6: Institutions and Economic Development

1. Introduction
2. Determinants of long term development
3. Institutions causing growth
 - 3.1 Acemoglu, Johnson, Robinson (2001)
 - 3.2 Kaufmann and Kraay (2002)

- 3.3 Rodrik and Trebbi (2002)
- 4. Methodological issues and reversal effects on institutions
 - 4.1 Glaeser et al (2004)
 - 4.2 Albouy (2006)

III. Political Institutions and Governance

Chapter 7: Democracy, Elections and Political Machines (reading assignment)

Chapter 8: Corruption and Development

1. What is corruption?
2. Conditions that facilitate corruption
3. Views of corruptions on development
4. Effects of corruptions
5. Gender and corruptions

Assessment

Paper summary	30
Class participation	10
Final Exam	60
Total mark	100

References

- *Acemoglu D., Johnson S., Robinson J. (2001) ‘The Colonial Origins of Comparative Development’, *American Economic Review*, 91(5): 1369-1401
- *Acemoglu D., Johnson S., Robinson J. (2002) ‘Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution’, *The Quarterly Journal of Economics*, 117(4): 1231-1294
- *Acemoglu D., Johnson S., Robinson J. (2005) ‘Institutions as a Fundamental Cause of Long-Run Growth’, *Handbook of Economic Growth*, 1(1): 385-472
- *Aidt T., Dutta J., Sena V. (2008) ‘Governance Regimes, Corruption and Growth: Theory and Evidence’, *Journal of Comparative Economics*, 36(2): 195-220
- Bardhan, P. K. (1989). Alternative approaches to the theory of institutions in economic development. In *The economic theory of agrarian institutions*, ed. P. Bardhan. Oxford: Clarendon Press.
- Bereket Kebede. (2002). Land Tenure and Common Pool Resources in Rural Ethiopia: A Study Based on Fifteen Sites’. *African Development Review/Revue Africaine de Développement* 14 (1): 113-49.
- Binswanger, H.P., K. Deininger, and G. Feder. (1995). Power, Distortions, Revolt and Reform in Agricultural Land Relations. *Handbook of Development Economics* 3B:2659–772.
- Bromley, D. W. (1991). *Environment and Economy. Property Rights and Public Policy*. Oxford: Blackwell.

- Bromley, D.W. (2009). Formalising Property Relations in the Developing World: The Wrong Prescription for the Wrong Malady. *Land Use Policy* 26(1):20–7.
- Cimoli M., Dosi G., Stiglitz J. (2009, eds.) *Industrial Policy and Development: The Political Economy of Capabilities Accumulation*. Oxford: Oxford University Press.
- Claassens, A. (2003). Community Views on the Communal Land Rights Bill. Research Report 15. Cape Town: Programme for Land and Agrarian Studies, University of the Western Cape.
- Coase, R. H. (1937). The nature of the firm. *Economica*, 4, 386–405.
- *Coase, Ronald H. (1960) “The Problem of Social Cost,” *Journal of Law and Economics*, 3, 1-44.
- Crewett, W. A. Bogale, and B. Korf. (2008). Land Tenure in Ethiopia: Continuity and Change, Shifting Rulers, and the Quest for State Control. CAPRI Collective Action and Property Right, Working Paper No. 91
- *de Soto, H. (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere else*. New York: Basic Books.
- Deininger, K., D. Ayalew, S. Holden, and J. Zevenbergen. (2008). Rural Land Certification in Ethiopia: Process, Initial Impact, and Implications for other African Countries. *World Development* 36(10): 1786–812.
- Dessalegn Rahmato (2009), *The Peasant and the State: Studies in Agrarian Change in 1950s-2000s*, AAU Press.
- *Easterly, W. (2008). Institutions: Top Down or Bottom Up? *American Economic Review, Papers and Proceedings* 98(2):95–9.
- Ethiopian Economic Association/Ethiopian Economic Policy Research Institute (EEA/EEPRI). (2002). *A Research Report on Land Tenure and Agricultural Development in Ethiopia*. Addis Ababa: EEA/EEPRI.
- Federal Democratic Republic of Ethiopia. (1995). *The Constitution of the Federal Democratic Republic of Ethiopia*. Addis Ababa.
- Federal Democratic Republic of Ethiopia. (1997). *Rural Land Administration Proclamation of the Federal Government of Ethiopia. Proclamation No. 89/1997*. Addis Ababa: Federal Negarit Gazeta.
- Gabre-Madhin, E. (2001). *Market institutions, transaction costs, and social capital in the Ethiopian grain market*. Research Report 124. Washington, D.C.: International Food Policy Research Institute.
- *Gehlbach S., Keefer P. (2012) ‘Investment Without Democracy: Ruling Party Institutionalization and Credible Commitment in Autocracies’ *Journal of Comparative Economics*, 39(2): 123-139
- *Glaeser E., La Porta R., Lopez-de-Silanes F., Shleifer A. (2004), ‘Do Institutions Cause Economic Growth’, *Journal of Economic Growth*, 9(3): 271-303
- Kirsten, Johann F., A. S. Mohammad Karaan, and Andrew R. Dorward (2008), Introduction to the Economics of Institutions in: Johann F. Kirsten, Andrew R. Dorward, Colin Poulton, and Nick Vink (eds.) *Institutional Economics Perspectives on African Agricultural Development*.
- *Li H., Zhou L. (2005) ‘Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China’, *Journal of Public Economics*, 89: 1743-1762
- MoFED (2007/08) MINISTRY OF FINANCE & ECONOMIC DEVELOPMENT Annual Report on Macroeconomic Developments *EFY 2000 (2007/08)*
- *North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.

- Regional Government of Oromia. (2003). *Oromia Rural Land Administration and Use Regulation. Regulation No. 39/2003*. Finfinnee: Regional Government of Oromia.
- Regional Government of Oromia. (2007). *Oromia Rural Land Use and Administration Proclamation No. 130/ 2007*. Proclamation to amend the proclamation No . 56/2002, 70/2003, 103/2005 of Oromia Rural Land Use and Administration. Finfinnee
- Reuter J., Frye T., Szakonyi D. (2012) ‘Political Machines at Work: Voter Mobilization and Electoral Subversion in the Workplace’, *World Politics*, forthcoming
- *Rodrik D. (2008) ‘Industrial Policy: Don’t Ask Why, Ask How’, *Middle East Development Journal*, 1(1): 1-29
- *Rodrik D., Subramanian A., Trebbi F. (2004) ‘Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development’, *Journal of Economic Growth*, 9(2): 131-165
- *Sachs J. (2003) ‘Institutions Don’t Rule: Direct Effects of Geography on Per Capita Income’, *NBER working paper No. 9490*
- Sen. A. K. (2000). *Development as Freedom*, Alfred A. Knopf, Inc. New York.
- Williamson, O. E. (2000). The New Institutional Economics: Taking stock, looking ahead. *Journal of Economic Literature* 38 (September): 595–613.
- Williamson, O. E. (1975). *Markets and hierarchies: Analysis and anti-trust implications*. New York: Free Press.

* Denotes mandatory readings!