

MPP-U4: States and Markets
(Emphasis on economics and governance in the digital era)
Thráinn Eggertsson

Class hours	Thursday 11-13h
Class room	R 2.32
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Adjunct information. Thráinn Eggertsson is professor of economics at the University of Iceland and global distinguished professor of politics at New York University (until 2010) His areas of research are politics and economics of institutions, economics of knowledge, law and economics, economic history, and industrial organization.

1. Course Contents and Learning Objectives

Course description: Following up on the introductory class of the first semester, U4 aims at providing a more hands-on approach to economic problems. This track of the U4 courses focuses on the economics and politics of the fundamental institutions of economic systems that shape the incentives of economic and political actors. We begin by introducing analytic tools for examining institutions and systems of governance: How do various structures of property rights influence economic incentives and outcomes? How do the costs of transacting influence organization and governance? What are the consequences of the commons, anticommons, and open access for resource use and the environment? How do political factors impact the structure of property rights? How do various beliefs and deep uncertainty affect economic and political decision makers? How does the shadow of history influence policy options and policy success? We trace how industrial revolutions have over time changed the structure of industry, giving special attention to the response of governments to a changing technological environment.

The second part of the seminar focuses on how new technologies, such as digitalization of data, computerization, the Internet, and biotechnology are changing the social landscape. We ask, for instance: What do we know about market structure in high-tech industries? Are Internet markets monopolistic or competitive? Does Internet trade facilitate or prevent price discrimination? How does the new information technology influence industrial governance, political organization, monitoring of citizens by the state, criminal behavior, and law enforcement? What do we know about the economics of digital goods? How does the new technology affecting creative industries such as the book and music industries? Is the current system of patents and copyright inefficient? Or in general: at the beginning of the 21st century, how is modern technology changing our economic, political and social environments, and what changes in property rights and methods of governance are required to tame and efficiently utilize the new forces?

Learning objectives & target group & teaching format: The course introduces the students to a new approach for studying economic systems and institutional change. Although our approach is interdisciplinary, we nonetheless employ the basic tools of economics. When appropriate we emphasize political economy, incomplete knowledge, uncertainty, and transaction costs. We read essays and book chapters that will be available on Moodle. A few of the readings contain somewhat technical sections (in terms of mathematics and statistics) but then the students are only required to familiarize themselves with basic arguments and conclusions. An important objective of the course is to train the students to find quickly the core of an argument, establish key facts, and be ready to understand and compare different viewpoints. Another objective of the course is to familiarize the students with the economic approach to social issues. The weekly class meeting should be as interactive as possible. Every week two students make class presentations and other two prepare fact sheets.

2. Course Requirements and Grading

The readings, all of which are found on Moodle, are either required readings or optional readings. You must come prepared to class and participate in the class discussion.

Presentation: Each student must a) make a 10-minute presentation in class, dealing with a topic that I assign. The presentation needs to be well prepared. It cannot be longer than 10 minutes (I stop you after 10 minutes). The topics are often broad and require good background so that the essential points can be communicated in 10 minutes. Please do not prepare Power Point slides. You may distribute handouts with

graphs and background information if needed. When assessing your presentation I will take into account content, structure, completeness, and presentation skills. [Please show me—you may email me—an outline of the presentation one week before the assigned date.]

Fact sheet: The fact sheet is a very important background document for class discussions (and also your exam preparation). You should become an expert on the topic and present in a highly structured and easily accessible manner the key elements of information. The document should be 3-4 pages long (depending on the number of tables, graphs, etc.), containing a large amount of information while remaining accessible to the reader. The fact sheet is due on Monday midnight preceding the session in which the topic is covered.

Final examination: In the final exam, you will be given three “short questions” (worth 30% of the exam grade) plus two different essay questions, from which you choose one (70% of the exam grade). The knowledge base for the exam is as follows: (i) the assigned readings, (ii) the fact sheets, (iii) the presentations and discussions in class.

Grade composition

Presentation	25%
Fact Sheet	25%
Final Exam	50%

Turning in your fact sheet in time is crucial for a good class discussion. Other students need it as input. I will therefore sanction assignments that are turned in late. The following rules will apply:

- If turned in up to 24 hours after deadline: Grade based on 80%
- If turned in up to one week late: Grade based on 66%
- If turned in more than one week late: 0%

Failure to make a presentation at the scheduled time 0%

Please do contact me if you know in advance that you will encounter difficulties meeting your schedules.

Attendance is mandatory and will be monitored. You can miss up to 2 sessions and use them for extra-curricular activities without consequences for your achievements in the course.

Anything exceeding these two sessions will lead to a reduction of the final grade unless you can provide a medical certificate. If you miss more than four sessions, you might fail the course if there are no special circumstances to be discussed with the instructor.

3. Overview

Session	Date	Topic
No. 1	10 Feb	Introduction to the course. Introduction to the study of economic systems
No. 2	17 Feb	Economics of property rights
No. 3	24 Feb	Rise of the modern corporation: technology, transaction costs, and organizational innovation
No. 4	3 March	Wayward corporations: a) cartels, b) pyramidal control structures
No. 5	10 March	Open access, anticommons, and communal property: protecting forests, fish stocks, science, and the climate
No. 6	17 March	Economics of patents and copyright
No. 7	24 March	Intellectual property: economics, politics, and ideology
No. 8	31 March	High-technology industries and market structure
No. 9	7 April	Privacy and commercial security in the new economy
No. 10	14 April	The economics of digital goods
No. 11	28 April	The Internet and public policy
No. 12	5 May	Politics, governance, and the Internet
No. 13	12 May	Review and general class discussion

EXAMINATION: FRIDAY, MAY 13, 14-16h

SESSION 1	10 FEBRUARY 2011
<i>Topic</i>	<i>Introduction to the course Introduction to the study of economic systems</i>
<i>Presentations</i>	n/a
<i>Fact sheets</i>	n/a

<i>Required readings</i>	Thráinn Eggertsson (1990). The role of transaction costs and property rights in institutional analysis. <i>European Economic Review</i> 84(3): 359–68
SESSION 2	17 FEBRUARY 2011
<i>Topic</i>	<i>Economics of property rights</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Discuss the property rights paradigm in economics. Why is it a useful approach for studying the structure of economic systems? In your view, does the approach have significant weaknesses?</i> [Alchian et al.] 2. <i>What is meant by the term ‘transaction costs’, and why are transaction costs important for studying economic systems?</i> [Allen]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>The various types of non–legal sanctions and their relationship to legal sanctions.</i> [Panther, 999–1009] 2. <i>Non–legal sanctions in action—various applications.</i> [Panther 1010–1020].
<i>Required readings</i>	<p>Armen Alchian Harold Demsetz (1973). The property rights paradigm. <i>The Journal of Economic History</i> 33(1): 16–27</p> <p>Douglas W. Allen (2000): Transaction costs. In Bouckaert et al (eds): <i>Encyclopedia of Law and Economics</i>, vol. 1, Edward Elgar Press [21 pages + bibliography]</p> <p>Panther (2000). Non–legal sanctions. In Bouckaert et al (eds): <i>Encyclopedia of Law and Economics</i>, vol. 1, Edward Elgar Press [22 pages + bibliography]</p>
<i>Background readings</i>	Karl Brunner (1992). Ronald Coase: Old–fashioned scholar. <i>Scandinavian Journal of Economics</i> 94(1): 7–17 [a paper originally prepared for the Nobel Prize Committee]
SESSION 3	24 FEBRUARY 2011
<i>Topic</i>	<i>The rise of the modern corporation: technology, transaction costs, and organizational innovation</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Discuss Alfred Chandler’s theory of the rise of the industrial firm with special emphasis on his concepts ‘scale and scope’, ‘rated capacity, ‘throughput’, and ‘organizational learning’.</i>[Chandler]. 2. <i>Lamoreaux, Raff & Temin criticize Chandler’s views. Evaluate their criticism (ignore other aspects of their paper).</i> [Lamoreaux et al.]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>The structure of business organization in the United States until the rise of the large, vertically integrated firm, with special reference to transaction costs, transportation costs, and economic geography.</i> [Lamoreaux et al., sections 16–39] 2. <i>The evolution of US business organization from large, vertically integrated firm to the present</i> [Lamoreaux et al.
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	sections 40–66].
<i>Required readings</i>	<p>Alfred J. Chandler (1992). Organizational capabilities and the economic history of the industrial enterprise. <i>Journal of Economic Perspectives</i> 6(3): 79–100.</p> <p>Naomi R. Lamoreaux et al (2003). Beyond markets and hierarchies: Towards a new synthesis of American business history. <i>American Historical Review</i> 108(2). 34 pages</p>
<i>Background readings</i>	Scott Masten (2000). Contractual Choice. In Bouckaert et al. (eds): <i>Encyclopedia of Law and Economics</i> , vol. 1, Edward Elgar Press [15 pages + bibliography]
SESSION 4	3 MARCH 2011
<i>Topic</i>	<i>Wayward corporations: a) cartels, b) pyramidal control structures</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>What is a cartel? Why are cartels formed, and why are they economically harmful? Discuss prevalence of cartels, their behavior, and their success in raising price and causing damage.</i> [Various sections in Hüschelrath et al.] 2. <i>Discuss various aspects of anti-cartel public policy, such as problems in preventing cartels from forming, detecting cartels, and encouraging private enforcement. Has anti-cartel policy been successful in Europe and the USA?</i> [Various sections in Hüschelrath et al.]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>In corporate governance, how common worldwide are ‘control pyramids’? How are they used?</i> [Morck et al. 655–69, and summary sections 5.5, 6.4, 7.6, and 8, Conclusion.] 2. <i>The empirical problem of quantifying the damages caused by cartels; evaluating the impact of cartel enforcement on post-cartel prices; and assessing the deterrence effect of cartel enforcement.</i> [Hüschelrath et al. 28–43]
<i>Required readings</i>	<p>Kai Hüschelrath & Jürgen Weigand (2010). Fighting hardcore cartels. Discussion Paper No. 10–084. ZEW–Center for European Economic Research. 57 pages [You may skip over the occasional equation in the text.]</p> <p>Randal Morck, Daniel Wolfenson, & Bernard Yeung (2005). Corporate governance, economic entrenchment, and growth. <i>Journal of Economic Literature</i> 43(September): 655–720. [Read pages 655–669 plus summary sections and the conclusion]</p>
<i>Background readings</i>	James Griffin (2000). An inside look at a cartel at work: Common characteristics of international cartels. US Department

	of Justice, Antitrust Division.
SESSION 5	10 MARCH 2011
<i>Topic</i>	<i>Open access, anticommons, and communal property: protecting forests, fish stocks, science, and the climate</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. Describe and evaluate Elinor Ostrom's advocacy of a polycentric approach for coping with climate change. What is a polycentric approach? Why should it work? [Ostrom 2009] 2. What does Richard Nelson mean by 'the scientific commons'? Why does he believe that the scientific commons is under threat and that it is critically important to protect it? What do you think? [Nelson]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. Open access versus common property: a) economic consequences of open access; b) common (or communal) property: the role of exclusion, internal governance. [Eggertsson 2002] 2. Gary Libecap's empirical findings regarding state regulation of natural resources: wild ocean fisheries, oil, and air pollution. What are his main findings? [Libecap]
<i>Required readings</i>	<p>Thráinn Eggertsson (2002). Open access and common property. Chapter 3 in Terry Anderson & Fred McChesney, <i>Property rights: Cooperation, conflict, and the law</i>. Princeton University Press. 16 pages</p> <p>Elinor Ostrom (2009). A polycentric approach for coping with climate change. The World Bank, Policy Research Working Paper No. 5095.</p> <p>Gary D Libecap (2003). State regulation of common-pool, open-access resources International Center for Economic Research, Working paper 19/2003.</p> <p>Richard R. Nelson (2004). The market economy and the scientific commons. <i>Research Policy</i> 33:455-471.</p>
<i>Background readings</i>	Elinor Ostrom (2008). Institutions and the environment. <i>IEA Economic Affairs</i> (September): 24-31.
SESSION 6	17 MARCH 2011
<i>Topic</i>	<i>The economics of patents and copyright</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. Analyze copyright law in economic terms [Lévêque et al. Chapter 4] 2. Discuss the relationship between intellectual property and competition law. Is competition policy an appropriate instrument to remedy flaws in intellectual
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	<i>property law?</i> [Lévêque et al. Chapter 5]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>The basic economics of property rights.</i> [Lévêque et al. Chapters 1 & 3] 2. <i>Patents and efficiency.</i> [Lévêque et al. Chapter 2]
<i>Required readings</i>	François Lévêque & Yann Ménière (2004) <i>The economics of patents and copyright. A primer.</i> Berkeley Electronic Press
<i>Background readings</i>	
SESSION 7	24 MARCH 2011
<i>Topic</i>	<i>Intellectual property rights: economics, politics, and ideology</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Are we producing a global generation of copyright criminals? Present and evaluate the case made by F. Oduor.</i> [Oduor]. 2. <i>Present and evaluate the views of Robert Merges on the concept of property in the digital era.</i> [Merges]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>Richard Posner explains various differences between the laws of physical property and the laws of intellectual property in terms of economy and efficiency. Summarize his main examples.</i> [Posner 2005a] 2. <i>Summarize Gilbert's review of Boldrin and Levine: "Against intellectual monopoly" and, very briefly, summarize Posner's view on whether we have "too many intellectual property rights"</i> [Gilbert, Posner 2005b]
<i>Required readings</i>	<p>Richard A. Posner (2005a). Intellectual property: The law and economics approach. <i>Journal of Economic Perspectives</i> 19(2): 57-73</p> <p>Robert Gilbert (forthcoming). A world without intellectual property? Boldrin and Levine, "Against intellectual monopoly". <i>Journal of Economic Literature</i>, forthcoming. 20 pages.</p> <p>Robert Merges (2008). The concept of property in the digital era. <i>Houston Law Review</i> 45(4): 1239-75.</p> <p>Fredrick Oduor (2010). The internet and copyright protection: Are we producing a global generation of copyright criminals? Working Paper Deakin University. 14 pages.</p>
<i>Background readings</i>	Richard A Posner (2005b). Do we have too many intellectual property rights? <i>Marquette Intellectual Property Law Review</i> 9(2): 173-86.
SESSION 8	31 March 2011
<i>Topic</i>	<i>High-technology industries and market structure</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Discuss for modern high-technology industries: a)</i>

	<p><i>differentiation of products and prices, b) search, c) bundling, d) switching costs and lock-in.</i> [Varian 2002, 650–77]</p> <p>2. <i>Nowadays, most economic transactions involve a computer. Discuss where we seem to be heading with computer-mediated transactions.</i> [Varian 2010]</p>
<i>Fact sheets</i>	<p>1. <i>Supply-side economies of scale, and demand-side economies of scale in modern high-tech industries</i> [Varian 2002, 77–85]</p> <p>2. <i>The critical role of standards in modern high-tech industries</i> [Varian 2003, 86–90].</p>
<i>Required readings</i>	<p>Hal R Varian (2002). High-technology industries and market structure. University of California, Berkley Working Paper. 43 pages</p> <p>Hal R Varian (2010). Computer mediated transactions. <i>American Economic Review</i> 100(2): 1–10.</p>
<i>Background readings</i>	Jonathan Levine (2010). The economics of internet markets. Stanford University Working Paper. 33 pages. [Brand new survey. Relatively easy reading except for a few subsections with equations].
SESSION 9	7 APRIL 2011
<i>Topic</i>	<i>Privacy and commercial security in the new information economy</i>
<i>Presentations</i>	<p>1. <i>We are in the midst of two major shifts in the computing platform—Web 2.0, and cloud computing—that are disrupting the prior business model. Discuss these changes and how they are related to the identity of Internet users.</i> [Picker, 1–18]</p> <p>2. <i>Can Internet advertising make an efficient contribution by helping to match buyers and sellers? How does our new computing architecture construct and control identity on the Internet? How should we regulate identity controls?</i> [Picker 18–44].</p>
<i>Fact sheets</i>	<p>1. <i>Lenard et al. claim that the commercial use of information on the Internet has produced costs and benefits for consumers, but the benefits outweigh the costs. Summarize the main points of their argument.</i> [Lenard et al.]</p> <p>2. <i>The basic (commercial) security problems faced by consumers, Internet service providers, online retailers, and others on the Internet. Various policy recommendations for improving online security.</i> [Hammock].</p>

<i>Required readings</i>	<p>Randal C. Picker (2009). Online advertising, identity, and privacy. University of Chicago, Law and Economics working paper, No 475. 44 pages.</p> <p>Mike Hammock (2010). A review of the economics of security literature. MT State University Working Paper. 38 pages.</p> <p>Thomas M. Lenard & Paul H Rubin (2010). In defense of data: Information and the costs of privacy. <i>Policy and Internet</i> 2(1): 148–83.</p>
<i>Background readings</i>	Oren Bar–Gill (2007). Informing consumers about themselves. New York University, Law and Economics Research Papers Series 07–44. 72 pages [A very long paper, not essential. For anyone who is interested in the topic.]
SESSION 10	14 APRIL 2011
<i>Topic</i>	<i>The economics of digital goods</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. Explain the term ‘collective invention regime’. Is OSS (open source software) development just another case of collective invention? [Osterloh et al.] 2. Discuss cooperation by many firms in large–scale open innovation. Compare two open innovation structures: a) patent pools and b) open source [Rayna et al. 2010]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. Economic nature and characteristics of digital goods I: their properties as a) public goods, b) durable goods. [Rayna 2008, 12–27]. 2. Economic nature and characteristics of digital goods II: a) as experience goods, b) the new age of piracy, c) the value problem. [Rayna 2008, 27–34]
<i>Required readings</i>	<p>Tierry Rayna (2008). Understanding the challenges of the digital economy: The nature of digital goods. <i>Communications & Strategies</i> 71(3): 13–36.</p> <p>Margit Osterloh & Sandra Rota (2007). Open–source software development—Just another case of collective invention? <i>Research Policy</i> 36: 157–71.</p> <p>Tierry Rayna & Ludmila Striukova (2010). Large–scale open innovation: Open source vs. patent pools. <i>International Journal of Technology Management</i> (52)3/4:477–96.</p>
<i>Background readings</i>	
SESSION 11	28 APRIL, 2011
<i>Topic</i>	<i>The Internet and public policy</i>

<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Across the world, billions of people have moved online large chunks of their social, economic, and political life. The new technology has given governments new policy tools but also presented them with new issues, and new problems. Discuss these new dimensions.</i> [Margetts] 2. <i>Aral et al. (2010) argue that our new tools and techniques for tracking information work ('the digital lens') soon will transform information work and management in the modern firm. Discuss.</i> [Aral et al.]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>Summarize David Friedman's ideas about how to choose an appropriate metaphor for fitting unauthorized use of a computer into our legal system.</i> [Friedman, Chapter 10.] 2. <i>Summarize Friedman's views of the future of computer crime, and the future of law enforcement.</i> [Friedman Chapters 11, 12]
<i>Required readings</i>	<p>Helen Z Margetts (2009). The Internet and public policy. <i>Policy & Internet</i> 1(1): 1-21</p> <p>Sinan Aral, Erik Brynjolfsson, & Marshall Van Alstyne (2010) Harnessing the digital lens to manage and measure information work (November 16). Available at SSRN.com http://ssrn.com/abstract=1709943</p> <p>David D Friedman (2008). <i>Future Imperfect</i>: Chapter 10, What is a meta phor? 18 pages. Chapter 11, The future of computer crime [9 pages]; and Chapter 12, Law enforcement × 2 [10 pages]. Cambridge University Press. Friedman's entire book is available on Internet at http://www.daviddfriedman.com/Future_Imperfect.html</p>
<i>Background readings</i>	
SESSION 12	5 MAY 2011
<i>Topic</i>	<i>Politics, governance, and the Internet</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Discuss the potential role of the Internet in politics around the world:</i> [Etling et al.] 2. <i>Discuss digital governance and institutional change in China's coal industry.</i> [Schlæger]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>Access to digital information makes it possible for the state to know more about each of its citizens that ever before in human history. Introduce the issues, and provide facts about network and server surveillance in various countries.</i> [Palfrey 2008, 241-265.] 2. <i>Access to digital information makes it possible for the state to know more about each of its citizens that ever</i>
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	<i>before in human history. Summarize facts about server surveillance, and viewpoints about the need to rethink the traditional private–public distinction in the digital age. [Palfrey 2008, 265–284].</i>
<i>Required readings</i>	<p>Bruce Etling, Robert Faris, & John Palfrey (2010). Political change in the digital age: The fragility and promise of digital organizing. <i>SAIS Revue</i> 30(2, December): 37–49.</p> <p>John Palfrey (2008). The public and the private at the US border with cyberspace. <i>Mississippi Law Journal</i> 78: 241–294.</p> <p>Jesper Schlæger (2010). Digital governance and institutional Change: Examining the role of e–governance in China’s coal sector. <i>Policy and the Internet</i> 2(1): 37–61.</p>
<i>Background readings</i>	Mark Graham (2008). Warped geographies of development: The Internet and theories of economic development. <i>Geography Compass</i> 2008, 2/3: 771–789.
SESSION 13	12 MAY <i>Course review and general class discussion</i> ---greater detail later
EXAMINATION	<i>FRIDAY, MAY 13, 14–16h</i>