

MPP-U4: States and Markets
(Emphasis on economic growth and development)
Thráinn Eggertsson

Class hours	Wednesday 9-11h
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 **economic development and long-term growth**. We examine such questions as: Why did modern growth emerge some 250 years ago in North Western Europe? Why do poverty traps and malign social equilibria emerge and how do we break them? Why is it difficult to transfer the institutional arrangements in one country to another? Do the origins and specific nature of legal and other institutions matter for long-term growth? Cases: What are the lessons for institutional policy from successful economic growth in modern China, Botswana, and other countries? What are the lessons from the transition of former soviet economies? What are the lessons from reform failures in developing countries? Our main viewpoint is that relative economic decline reflects the inability of a nation to usefully employ already existing technologies, which is basically a question of domestic (and often international) politics and governance.

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 can 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 required 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	9 Feb	Introduction to the course. Introduction to the study of economic systems
No. 2	16 Feb	Economics of property rights
No. 3	23 Feb	Rise of the modern corporation: technology, transaction costs, and organizational innovation
No. 4	2 March	Wayward corporations: a) cartels, b) pyramidal control structures
No. 5	9 March	Open access, anticommons, and communal property: protecting forests, fish stocks, science, and the climate
No. 6	16 March	Economics of patents and copyright
No. 7	23 March	Modern growth theory and economics of institutions
No. 8	30 March	Dimensions of economic systems: innovation and dynamism; civic capital; evolution of institutions
No. 9	6 April	Former soviet economies in transition: the lessons
No. 10	13 April	Searching for the roots of economic success: Botswana and China
No. 11	27 April	Poverty traps and how to escape them
No. 12	4 May	A. New methods for measuring economic performance. B. The Asian growth miracle, growth theory, and our economic future
No. 13	11 May	Review and general class discussion

EXAMINATION: FRIDAY, MAY 13, 14-16h

SESSION 1	9 FEBRUARY 2011
<i>Topic</i>	<i>Introduction to the course</i> <i>Introduction to the study of economic systems</i>
<i>Presentations</i> <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	16 FEBRUARY 2011
<i>Topic</i>	<i>Economics of property rights</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>What is the property rights paradigm in economics? In what way is the paradigm appropriate 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	23 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. 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'. 2. Lamoreaux, Raff & Temin criticize Chandler's views. Directly evaluate their criticism [ignore other aspects of their paper].
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. 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 [Lamoreaux et al., sections 16–39]. 2. The evolution of US business organization from large, vertically integrated firm to the present [Lamoreaux et al. 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>	<p>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]</p>
SESSION 4	2 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. What is a cartel? Why are cartels formed, why are they economically harmful? Discuss prevalence of cartels, their behavior, and their success in raising price and causing damage. [Various sections in Hüscherlath et al.] 2. Discuss various aspects of anti-cartel public policy, such as problems of preventing cartels from forming, detecting cartels, and encouraging private enforcement. Has the policy been successful in Europe and the USA? [Various sections in Hüscherlath et al.]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. In corporate governance, how common worldwide are 'control pyramids'? How are they used? [Morck et al. 655–69, and summary

	<p>sections 5.5, 6.4, 7.6, and 8, Conclusion.]</p> <p>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]</p>
<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 occasional equations 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 655–675 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	9 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. <i>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?</i> [Ostrom 2009] 2. <i>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?</i> [Nelson]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>Open access versus common (or communal) property: Economic consequences of open access; common (communal) property: the role of exclusion and internal governance.</i> [Eggertsson 2002] 2. <i>Gary Libecap’s empirical findings regarding state regulation of natural resources: wild ocean fisheries, oil, and air pollution. What are his main findings?</i> [Libecap].
<i>Required readings</i>	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>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	16 MARCH 2011
<i>Topic</i>	<i>Economics of patents and copyright</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Analyze copyright law in economic terms</i> [Lévêque et al. Chapter 4] 2. <i>Discuss the relationship between intellectual property and competition law. Is competition policy an appropriate instrument to remedy flaws in intellectual 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	23 MARCH 2011
<i>Topic</i>	<i>Modern growth theory, and the economics of institutions</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Discuss how Acemoglu and Robinson define institutions. What do they say about the impact of institutions on growth and development? How they model institutional change in a dynamic world? Are they on the right track?</i> [Acemoglu et al. pp. 1-10]. 2. <i>Discuss potential pitfalls of institutional reform mentioned by Acemoglu and Robinson (2008), including the seesaw effect; persistence of de facto power; and the iron law of oligarchy. Do you share their pessimism?</i> [Acemoglu et al. pp. 10-25]

<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>Briefly summarize the main insights offered by various paradigms of new growth theory</i> [Aghion et al. pp. 7–17. Don't worry about their equations—try to get the basic idea] 2. <i>Lessons of new growth theory for policy.</i> [Aghion et al. pp 18–33. Focus on general ideas; ignore complex technical terms].
<i>Required readings</i>	<p>Philippe Aghion & Steven Durlauf (2009). From growth theory to policy design. Commission on Growth and Development Working Paper No. 57. World Bank. 44 pages [Parts are technical. Pick up basic arguments].</p> <p>Daron Acemoglu & James Robinson (2008). The role of institutions in growth and development. Commission on Growth and Development Working Paper No. 10. World Bank.</p>
<i>Background readings</i>	Thráinn Eggertsson (2005). Chapter 1: Imperfect institutions and growth theory in modern economics. In <i>Imperfect institutions: Possibilities and limits of reform</i> . Cambridge University Press. [List of references for the entire book is in a separate file.]
SESSION 8	30 MARCH 2011
<i>Topic</i>	<i>Dimensions of economic systems: innovation and dynamism; civic capital; evolution of institutions</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>What is civic capital? How does it accumulate and depreciate? How do we measure it?</i> [Guiso et al. sections 1, 2, 3.] 2. <i>Discuss the origins of civic capital and its economic effects?</i> [Guiso et al. sections 4, 5, 6]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>Technical progress under capitalism and socialism—as seen by János Kornai.</i> [Kornai, sections 1, 2] 2. <i>Transformation and acceleration of technical progress in post-socialist countries. The role of beliefs, understanding, and politics.</i> [Kornai, sections 3, 4, 5]
<i>Required readings</i>	<p>János Kornai (2010). Innovation and dynamism. Interaction between systems and technical progress. United Nation's University, Working Paper No. 2010/33. 40 pages [easy reading]</p> <p>Luigi Guiso, Paola Sapienza, & Luigi Zingales (2010). Civic capital as the missing link. To appear in Jess Benhabib et al. eds, <i>Social Economics Handbook</i>, Elsevier. [49 pages + bibliography]</p>

<i>Background readings</i>	Douglass C. North (1994). Economic performance through time [Nobel Prize Lecture]. <i>American Economic Review</i> 84(3): 359–68.
SESSION 9	6 APRIL 2011
<i>Topic</i>	<i>Former soviet systems in transition: the lessons</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Discuss Polishchuck typology for ‘institutional misuse’ and his examples taken from the Russian transition [Polishchuck].</i> 2. <i>Did differences in civil society development under communism influence the political, economic, and institutional change and transformation after 1989? [Bruszt et al.]</i>
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>European transition at twenty: assessing progress. Briefly summarize methods of assessment and main findings [Berglöf]</i> 2. <i>Theories, data, and methods used by Bruszt et al. for linking transition success to earlier civil society development. A summary. [Bruszt].</i>
<i>Required readings</i>	<p>Erik Berglöf et al (2010). European transition at 20. Assessing progress in countries and sectors. United Nations University, Working Paper 2010/91. 39 pages.</p> <p>László Bruszt, Nauro F Campos, Jan Fidrmuc, & Gérard Roland (2010). Civic society, institutional change, and the politics of reform. The Great Transition. United Nations University, Working Paper 2010/38. 25 pages.</p> <p>Leonid Polishchuk (2010). Misuse of institutions. Lessons from Transition. United Nations University, Working Paper 2010/75. 20 pages.</p>
<i>Background readings</i>	Gérard Roland (2010). The long-run weight of communism or the weight of long-run history. United Nations University, Working Paper 2010/83. 18 pages.
SESSION 10	13 APRIL 2011
<i>Topic</i>	<i>Searching for the roots of economic success: Botswana & China</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>The former soviet economies failed to reform themselves. How then did reform work in China? A brief overview. [Qian; very briefly check summary sections in Xu for additional insights.]</i> 2. <i>Between 1960–2005 Botswana, in Sub-Saharan Africa, had the highest real GDP growth per</i>

	<i>capita in the world. Why has Botswana been a success story?</i> [Source: Acemoglu et al.; Maipose has more recent data and more details, if you are interested]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. <i>Why are the elite in China motivated to promote growth?</i> [Zang] 2. <i>Brief summary of China's unique institutional arrangements for promoting growth</i> [Qian]
<i>Required readings</i>	<p>Daron Acemoglu, Simon Johnson, & James A Robinson (2001). An African Success story: Botswana. Published in Dani Rodrik ed. (2003), <i>In search of prosperity: Analytic narratives on economic growth</i>. Princeton Univ. Press.</p> <p>Yingyi Qian (2003). How reform worked in China. In Dani Rodrik ed. (2003), <i>In search of prosperity: Analytic narratives on economic growth</i>. Princeton Univ. Press, 297–333.</p> <p>Xiaowei Zang (2010). Why are the elite in China motivated to promote growth? United Nation's University Working Paper 2010/84. 19 pages</p>
<i>Background readings</i>	<p>James A Robinson & Q Neil Parsons (2006). State formation and governance in Botswana. <i>Journal of African Economies</i> 15(suppl. 1): 100–140.</p> <p>Gervase S. Maipose (2008). Policy and sustained development in Botswana. Commission on Growth and Development Working Paper No. 35. World Bank.</p> <p>Chenggang Xu (2010). The fundamental institutions of China's reforms and development. Working Paper, University of Hong Kong. 75 pages.</p>
SESSION 11	27 APRIL 2011
<i>Topic</i>	<i>Poverty traps and how to escape them</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. <i>Discuss how Levy and Fukuyama, using five conceptual dimensions of economic development, lay out four alternative sequences for breaking poverty traps. Also discuss the first two of their sequences.</i> [Levy et al. 1-23]. 2. <i>Discuss Levy and Fukuyama's third, and fourth alternative sequences for integrating growth and governance. Also use their framework to discuss economic development strategies.</i> [Levy et al. 23–42.]
<i>Fact sheets</i>	1. <i>Summarize and categorize basic findings in recent</i>

	<p><i>empirical literature that examines whether historical events are important determinants of economic development today. [Nunn]</i></p> <p>2. Summarize basic facts concerning the use of a “cultural gravity model” to investigate, for instance, the economic and cultural proximity of European Union members. [Grosjean—ignore econometric technicalities if you don’t understand them. Give us the basic ideas]</p>
Required readings	<p>Nathan Nunn (2009). The importance of history for economic growth. <i>Annual Review of Economics</i> 1:65–92.</p> <p>Pauline Grosjean (2009). The role of history and spatial proximity in cultural integration: A gravity approach. Working paper University of California, Berkeley. [25 pages + append and bibl]</p> <p>Bryan Levy & Francis Fukuyama (2010). Development strategies. Integrating governance and growth. World Bank, Policy Research Working Paper 5196. 42 pages.</p>
<i>Background readings</i>	<p>William Easterly (2009). Can the West save Africa? <i>Journal of Economic Literature</i>, 47(2): 373–447. [Almost a book-length paper containing Easterly’s analysis of what he sees as failure of the Western aid effort in Africa. Reference material only for those who especially interested]</p>
SESSION 12	4 MAY 2011
<i>Topic</i>	<i>A. New methods for measuring economic performance and social progress. B. The Asian growth miracle, growth theory, and our economic future</i>
<i>Presentations</i>	<ol style="list-style-type: none"> 1. Discuss the use of satellite data on lights at night as a proxy for traditional national income account measures of economic growth. What (if anything) did you find impressive in Henderson et al. paper? [Rely on Henderson et al. but a complete summary is not required.] 2. Discuss Fogel’s analysis of economic trends between 2000 and 2040 and corresponding trends in power balances. Do you agree? [Relevant sections in Fogel 2009, and Fogel 2010]
<i>Fact sheets</i>	<ol style="list-style-type: none"> 1. Briefly summarize the methods used in Henderson et al. for using satellite data on lights at night to measure economic growth. Also

	<p><i>briefly report key empirical findings.</i> [Henderson et al.; don't worry about occasional technical material; give us the basic facts]</p> <p>2. <i>Factual summary of Fogel's analysis of world economic trends 2000–2040.</i> [Fogel 2010, and Section 7 in Fogel 2009].</p>
<i>Required readings</i>	<p>J. Vernon Henderson, Adam Storeygard, & David Weil (2009). Measuring Economic Growth from Outer Space. National Bureau of Economic Research, Working Paper 15199. 30 pages plus appendix.</p> <p>Robert W. Fogel (2009). The impact of the Asian miracle on the theory of economic growth. National Bureau of Economic Research, Working Paper 14967. 39 pages.</p> <p>Rober W Fogel (2010). Further comments on the impact of the Asian miracle on the theory of economic growth. NBER Working Paper 15721. 11 pages.</p>
<i>Background readings</i>	
SESSION 13	<p>11 MAY 2011: <i>Review and general class discussion</i></p> <p><i>---more detail later</i></p>
EXAMINATION	<i>FRIDAY, MAY 13, 14-16h</i>