

University of Missouri
AAE 8050, Fall 2014
ECONOMICS OF INSTITUTIONS AND ORGANIZATIONS
TTh 9:30-10:45am, 142 Mumford Hall

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Description

This class surveys the wide-ranging and rapidly growing literature on the economics of institutions and organizations, with an emphasis on applications and evidence. We begin with the methods and fundamental concepts (property rights, transaction costs, agency costs, information costs) that underlie research in the "new institutional economics." We turn next to a study of the institutional environment, the background constraints, or "rules of the game," that guide individuals' behavior. These can be both formal, explicit rules (constitutions, laws, property rights) and informal, often implicit rules (social conventions, norms). We conclude with a study of institutional arrangements, specific guidelines designed by trading partners to mediate particular economic relationships. Business firms, long-term contracts, public bureaucracies, nonprofit organizations, and other contractual agreements are examples of institutional arrangements. Class methods include readings, lectures, group discussions, and student presentations. Knowledge of economic theory at the intermediate undergraduate level is assumed.

Schedule and reading list

The following schedule indicates the topics and readings for each class meeting. Please be sure to read the assigned material before the meeting. Required readings are preceded by an asterisk (*); recommended supplementary or background readings are preceded by a dagger (+). Other items are included for bibliographic completeness. (Beginning with Part Four, students will be assigned to lead the discussion on particular articles, so the "required" and "recommended" identifiers are subject to change. I also welcome student suggestions for articles to be added to the list.)

Items in **gold** below are in the "Course Materials" section of Blackboard. The rest are linked below. (Some of these links will work only from on on-campus computer. To access these materials from off-campus computers, you will need to install the VPN client.)

The schedule is preliminary and subject to change, so check back frequently for updates.

PART ONE: INTRODUCTION

Week of August 25: Introduction

* Douglass C. North, "[Institutions](#)," *Journal of Economic Perspectives* 5, no. 1 (Winter 1991): 97-112.

* Oliver E. Williamson, "[The New Institutional Economics: Taking Stock, Looking Ahead](#)," *Journal of Economic Literature* 38, no. 3 (September 2000): 595-613.

Ronald H. Coase, "[The New Institutional Economics](#)," *American Economic Review* 88, no. 2 (May 1998): 72-74.

Peter G. Klein, "[New Institutional Economics](#)," in Boudewin Bouckaert and Gerrit De Geest, eds., *Encyclopedia of Law and Economics* (Cheltenham, U.K.: Edward Elgar, 2000), pp. 456-89.

Claude Ménard and Mary Shirley, eds., *Handbook of New Institutional Economics* (Springer, 2005).

PART TWO: METHOD

Week of September 1: Method

Methodological individualism

* Lars Udehn, "[The Changing Face of Methodological Individualism](#)," *Annual Review of Sociology* 28 (2002): 479-507.

Geoffrey Hodgson, "[Meanings of Methodological Individualism](#)," *Journal of Economic Methodology* 14, no. 2 (June 2007): 211-26.

[May 2013 issue](#) of *Academy of Management Perspectives*, symposium on "Microfoundations," and [Durand-Foss debate](#), May 2014.

Comparative institutional analysis

* Ronald H. Coase, "[The Regulated Industries: Discussion](#)," *American Economic Review* 54 (1964): 194-97.

* William H. Shughart, II, "[Public Choice](#)," *Concise Encyclopedia of Economics*.

Harold Demsetz, "[Information and Efficiency: Another Viewpoint](#)," *Journal of Law and Economics* 12, no. 1 (April 1969): 1-22.

Ronald H. Coase, "[The Lighthouse in Economics](#)," *Journal of Law and Economics* 17, no. 2 (October 1974): 357-76.

Economics and sister disciplines

* Ronald H. Coase, "[Economics and Contiguous Disciplines](#)," *Journal of Legal Studies* 7, no. 2. (June 1978): 201-11.

Christopher Winship and Sherwin Rosen, "[Introduction: Sociological and Economic Approaches to the Analysis of Social Structure](#)," *American Journal of Sociology* 94 (Supplement) (1988): S1-S16.

Oliver E. Williamson, "The Economics and Sociology of Organization," in George Farkas and Paula England, eds., *Industries, Firms, and Jobs* (New York: Plenum Press, 1988), pp. 159-86.

Richard Swedberg, ed., *Economics and Sociology: Conversations with Economists and Sociologists* (Princeton, N.J.: Princeton University Press, 1990).

Jackson A. Nickerson and James C. Yen, "Economizing and Strategizing," in Peter G. Klein and Michael E. Sykuta, eds., *The Elgar Companion to Transaction Cost Economics* (Cheltenham, U.K.: Edward Elgar, 2010), pp. 140-51.

Colin Camerer, "[Behavioral Economics](#)," World Congress of the Econometric Society, August 2005.

Matthew Rabin, "[Psychology and Economics](#)," *Journal of Economic Literature* 36, no. 1 (March 1998): 11-46.

PART THREE: FOUNDATIONAL CONCEPTS

Week of September 8: Property rights and transaction costs

Property rights

Gary D. Libecap, "[This Land Is My Land](#)," *Hoover Digest*, August 13, 2012.

* Ronald H. Coase, "[The Problem of Social Cost](#)," *Journal of Law and Economics* 3 (October 1960): 1-44.

* Harold Demsetz, "[Toward a Theory of Property Rights](#)," *American Economic Review* 57, no. 2 (May 1967): 347-59.

* Walter Block, "[Coase and Demsetz on Private Property Rights](#)," *Journal of Libertarian Studies* 1, no. 2 (1977): 111-15.

Gary Lawson, "[Efficiency and Individualism](#)," *Duke Law Journal* 42, no. 1 (October 1992): pp. 53-98.

Transaction costs

* Douglas W. Allen, "[Transaction Costs](#)," in Boudewin Bouckeart and Gerrit De Geest, eds., *Encyclopedia of Law and Economics* (Cheltenham, U.K.: Edward Elgar, 2000), pp. 893-926.

+ Alexandra Benham and Lee Benham, "The Costs of Exchange," in Peter G. Klein and Michael E. Sykuta, eds., *The Elgar Companion to Transaction Cost Economics* (Cheltenham, U.K.: Edward Elgar, 2010), pp. 107-19.

Ning Wang, "[Measuring Transaction Costs: An Incomplete Survey](#)," Working Paper, Ronald Coase Institute, 2003.

[Review of Austrian Economics 26, no. 4 \(December 2013\)](#), articles by McCloskey, Mokyr and Espín-Sánchez, Langlois, and Allen.

Kevin E. Davis, "[Contracts as Technology](#)," *New York University Law Review* 88 (April 2013): 83-127.

Week of September 15: Agency and information costs

Agency costs

* Joseph E. Stiglitz, "Principal and Agent," in John Eatwell, Murray Milgate, and Peter Newman, eds., *The New Palgrave: A Dictionary of Economics* (London: Macmillan, 1987).

Information costs

* F. A. Hayek, "[The Use of Knowledge in Society](#)," *American Economic Review* 35, no. 4 (September 1945): 519-30.

* George A. Akerlof, "[The Market for 'Lemons': Quality Uncertainty and the Market Mechanism](#)," *Quarterly Journal of Economics* 84, no. 3 (August 1970): 488-500.

Joseph E. Stiglitz, "[Information and the Change in the Paradigm in Economics](#)," Nobel Prize Lecture, 2001.

PART FOUR: THE INSTITUTIONAL ENVIRONMENT

Week of September 22: The legal environment and property rights

* Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, "[Law and Finance](#)," *Journal of Political Economy* 106, no. 6 (December 1998): 1113-55.

* Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "[The Economic Consequences of Legal Origins](#)," *Journal of Economic Literature* 46, no. 2 (2008): 285–332.

Kenneth W. Dam, "[Legal Institutions, Legal Origins, and Governance](#)," Olin Working Paper No. 303, University of Chicago Law School, September 2006.

"[Order in the Jungle: Economics and the Rule of Law](#)," *Economist* (March 15, 2008): 95-.

Kevin E. Davis, "[What Can the Rule of Law Variable Tell us About Rule of Law Reforms?](#)" *Michigan Journal of International Law* 26 (2004): 141-

* Raghuram G. Rajan and Luigi Zingales, "[The Great Reversals: The Politics of Financial Development in the Twentieth Century](#)," *Journal of Financial Economics* 69, no. 1 (July 2003): 5-50.

René M. Stulz and Rohan Williamson, "[Culture, Openness, and Finance](#)," *Journal of Financial Economics* 70, no. 3 (December 2003): 313-49.

Daron Acemoglu, Simon Johnson, and James A. Robinson, "[Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution](#)," *Quarterly Journal of Economics* 117, no. 4 (November 2002): 1231-94.

Howell E. Jackson and Mark J. Roe, "[Public and Private Enforcement of Securities Laws: Resource-Based Evidence](#)," *Journal of Financial Economics* 93, no. 2 (August 2009): 207-38.

The [research paper list](#) at [freetheworld.com](#).

Week of September 29: Norms, culture, and social conventions

* Carl Menger, "[On the Origin of Money](#)," *Economic Journal* 2, no. 6 (June 1892): 239-55.

Peter G. Klein and George A. Selgin, "[Menger's Theory of Money: Some Experimental Evidence](#)," in John Smithin, ed., *What is Money?* (London: Routledge, 2000), pp. 217-34.

* Robert C. Ellickson, "[A Hypothesis of Wealth-Maximizing Norms: Evidence from the Whaling Industry](#)," *Journal of Law, Economics, and Organization* 5, no. 1 (Spring 1989): 83-97.

+ Elinor Ostrom, "[Beyond Markets and States: Polycentric Governance of Complex Economic Systems](#)," Nobel Prize Lecture, December 2009.

Elinor Ostrom, "[Collective Action and the Evolution of Social Norms](#)," *Journal of Economic Perspectives* 14, no. 3. (Summer 2000): 137-58.

Joel Sobel, "[Can We Trust Social Capital?](#)" *Journal of Economic Literature* 40, no. 1 (March 2002): 139-54.

Paola Sapienza, Luigi Zingales, and Luigi Guiso, "[Does Culture Affect Economic Outcomes?](#)" *Journal of Economic Perspectives* 20, no. 2 (Spring 2006): 23-48.

C. Kirabo Jackson and Henry S. Schneider, "[Do Social Connections Reduce Moral Hazard? Evidence from the New York City Taxi Industry](#)," *American Economic Journal: Applied Economics* 3, no. 3 (2011): 244-67.

Week of October 6: Political economy

* Jonathan Cohn, "[When Did Political Science Forget About Politics?](#)" *New Republic*, October 25, 1999.

* Robert H. Bates, "[Institutions and Economic Performance](#)," IMF Working Paper, September 22, 1999, in Gudrun Kochendorfer and Boris Pleskovic, *The Institutional Foundations of a Market Economy* (Berlin: Deutsche Stiftung for Internationale Entwicklung, 2001).

Kenneth A. Shepsle and Barry R. Weingast, "[The Institutional Foundations of Committee Power](#)," *American Political Science Review* 81, no. 1 (March 1987): 85-104.

* Barry R. Weingast, "[The Political Foundations of Democracy and the Rule of Law](#)," *American Political Science Review* 91, no. 2 (June 1997): 245-63.

Witold J. Henisz and Bennett A. Zelner, "[The Institutional Environment for Telecommunications Investment](#)," *Journal of Economics and Management Strategy* 10, no. 1 (2001): 123-47.

Thomas W. Ross, "[Store Wars: The Chain Tax Movement](#)," *Journal of Law and Economics* 29, no. 1 (1986): 125-37.

E. C. Pasour, Jr., "[Agricultural Economists and the State](#)," *Econ Journal Watch* 1, no. 1 (April 2004): 106-33.

Lyon, Jesse D. "[Coordinated Food Systems and Accountability Mechanisms for Food Safety: A Law and Economics Approach](#)," *Food and Drug Law Journal* 53 (1998): 729-76.

Lawrence J. White, "[The Federal Reserve System's Influence on Research in Monetary Economics](#)," *Econ Journal Watch* 2, no. 2 (August 2005): 325-54.

Week of October 13: Applications to economic history and development

* Avner Greif, "[Reputation and Coalitions in Medieval Trade: Evidence on the Maghribi Traders](#)," *Journal of Economic History* 49, no. 4 (December 1989): 857-82.

Jeremy Edwards and Sheilagh Ogilvie, "[Contract Enforcement, Institutions and Social Capital: The Maghribi Traders Reappraised](#)," *Economic History Review* 65, no. 2 (May 2012): 421-44.

Avner Greif, "[The Maghribi Traders: A Reappraisal?](#)" *Economic History Review* 65, no. 2 (May 2012): 445-69.

* Douglass C. North and Barry R. Weingast, "[Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England](#)," *Journal of Economic History* 49, no. 4 (December 1989): 803-32.

* ["Glorious Revolutions and their Discontents,"](#) *The Economist*, December 4, 2013.

* Markus Goldstein and Christopher Udry, ["The Profits of Power: Land Rights and Agricultural Investment in Ghana,"](#) *Journal of Political Economy* 116, no. 6 (2008): 981–1022.

Stanley L. Engerman and Kenneth L. Sokoloff, "Institutional and Non-Institutional Explanations of Economic Differences," in Claude Ménard and Mary Shirley, eds., *Handbook of New Institutional Economics* (Springer, 2005), pp. 639-66.

Rohini Pande and Christopher Udry. "Institutions and Development: A View from Below," in Richard Blundell, Whitney Newey, and Torsten Persson, eds., *Advances in Economics and Econometrics: Theory and Applications* (New York: Cambridge University Press, 2006), pp. 359–403.

Peter Murrell, "Institutions and Firms in Transition Economies," in Claude Ménard and Mary Shirley, eds., *Handbook of New Institutional Economics* (Springer, 2005), pp. 667-700.

Mustapha K. Nabli and Jeffrey B. Nugent, "The New Institutional Economics and its Applicability to Development," *World Development* 17, no. 9 (1989): 1333-47.

Ray Bromley, ["A New Path to Development? The Significance and Impact of Hernando De Soto's Ideas on Underdevelopment, Production, and Reproduction,"](#) *Economic Geography* 66, no. 4 (October 1990): 328-48.

Thursday, October 23: Midterm exam

PART FIVE: INSTITUTIONAL ARRANGEMENTS

Week of October 27: Coase and the nature of the firm

* Ronald H. Coase, ["The Nature of the Firm,"](#) *Economica* NS 4, no. 16 (November 1937): 386-405.

* Ronald H. Coase, ["The Institutional Structure of Production,"](#) *American Economic Review* 82, no 4 (September 1992): 713-19.

Ronald H. Coase, ["The Nature of the Firm: Meaning,"](#) *Journal of Law, Economics, and Organization* 4, no. 1 (Spring 1988): 19-32.

Ronald H. Coase, ["The Nature of the Firm: Influence,"](#) *Journal of Law, Economics, and Organization* 4, no. 1 (Spring 1988): 33-47.

Week of November 3: Moral hazard and agency

* Armen A. Alchian and Harold Demsetz, ["Production, Information Costs, and Economic Organization,"](#) *American Economic Review* 62 (December 1972): 777-95.

* Michael Jensen and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure," *Journal of Financial Economics* 3 (October 1976): 305-60.

+ David E. M. Sappington, ["Incentives in Principal-Agent Relationships,"](#) *Journal of Economic Perspectives* 5, no. 2 (Spring 1991): 45-66.

* Douglas W. Allen and Dean Lueck, ["The Nature of the Farm,"](#) *Journal of Law and Economics* 41, no. 2 (October 1998): 343-86.

* Michael C. Jensen and Kevin J. Murphy, "[Performance Pay and Top-Management Incentives](#)," *Journal of Political Economy* 98, no. 2 (April 1990): 225-64.

Brian J. Hall and Jeffrey B. Liebman, "[Are CEOs Really Paid Like Bureaucrats?](#)" *Quarterly Journal of Economics* 113, no. 3 (August 1998): 653-91.

Weeks of November 10 and 17: Transaction cost economics

* Oliver E. Williamson, "[Transaction Cost Economics: The Governance of Contractual Relations](#)," *Journal of Law and Economics* 22 (October 1979): 233-61. Chapter 12 in Williamson, 1990.

* Oliver E. Williamson, "Transaction Cost Economics: An Overview," in Peter G. Klein and Michael E. Sykuta, eds. *The Elgar Companion to Transaction Cost Economics* (Cheltenham, U.K.: Edward Elgar, 2010), pp. 8-26.

* Benjamin Klein, Robert A. Crawford, and Armen A. Alchian, "[Vertical Integration, Appropriable Rents, and the Competitive Contracting Process](#)," *Journal of Law and Economics* 21 (1978): 297-326.

+ Benjamin Klein, "Asset Specificity and Holdups," in Peter G. Klein and Michael E. Sykuta, eds. *The Elgar Companion to Transaction Cost Economics* (Cheltenham, U.K.: Edward Elgar, 2010), pp. 120-26.

* Scott E. Masten, "[The Organization of Production: Evidence from the Aerospace Industry](#)," *Journal of Law and Economics* 27 (October 1984): 403-17.

Brian S. Silverman, Jackson A. Nickerson, and John Freeman, "[Profitability, Transactional Alignment, and Organizational Mortality in the U.S. Trucking Industry](#)," *Strategic Management Journal* 18 (Summer 1997): 31-52.

* Paul L. Joskow, "[Contract Duration and Relationship-Specific Investments: Empirical Evidence from Coal Markets](#)," *American Economic Review* 77 (March 1987): 168-85.

+ Kyle J. Mayer and Nicholas S. Argyres, "[Learning to Contract: Evidence from the Personal Computer Industry](#)," *Organization Science* 15, no. 4 (August 2004): 394-410.

Michael G. Jacobides and Sidney G. Winter, "[The Co-evolution of Capabilities and Transaction Costs: Explaining the Institutional Structure of Production](#)," *Strategic Management Journal* 26 (2005): 395-413.

Week of November 24: Thanksgiving holiday

Week of December 1: The property-rights approach

* Sanford J. Grossman and Oliver D. Hart, "[The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration](#)," *Journal of Political Economy* 94, no. 4 (1986): 691-719.

Oliver D. Hart and John Moore, "[Property Rights and the Nature of the Firm](#)," *Journal of Political Economy* 98 (1990): 1119-58.

+ Jean Tirole, "[Incomplete Contracts: Where Do We Stand?](#)" *Econometrica* 67, no. 4 (1999): 741-81.

Philippe Aghion and Richard Holden, "[Incomplete Contracts and the Theory of the Firm: What Have We Learned over the Past 25 Years?](#)" *Journal of Economic Perspectives* 25, no. 2 (Spring 2011): 181-97.

+ Eric Maskin, "[On Indescribable Contingencies and Incomplete Contracts](#)," *European Economic Review* 46, nos. 4-5 (May 2002): 725-33.

Kirsten Foss and Nicolai J. Foss, "Assets, Attributes and Ownership," *International Journal of the Economics of Business* 8 (2001): 19-37.

If time: Resource-based theories

* Jay B. Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17, no. 1 (1991): 99-120.

* Margaret A. Peteraf, "[The Cornerstones of Competitive Advantage: A Resource-Based View](#)," *Strategic Management Journal* 14, no. 3 (March 1993): 179-91.

Jay. B. Barney, "Is the Resource-Based 'View' a Useful Perspective for Strategic Management Research? Yes," *Academy of Management Review* 26, no. 1 (2001): 41-55.

Birger Wernerfelt, "[A Resource-Based View of the Firm](#)," *Strategic Management Journal* 5 (1984): 272-80.

+ Kirsten Foss and Nicolai J. Foss, "[Resources and Transaction Costs: How Property Rights Economics Furthers the Resource-based View](#)," *Strategic Management Journal* 26 (2005): 541-53.

+ Edith Penrose, *The Theory of the Growth of the Firm* (Oxford: Blackwell, 1959; third edition, Oxford: Oxford University Press, 1995).

PART SIX: WRAP-UP

Week of December 8: Review

* Robert Gibbons, "Four Formal(izable) Theories of the Firm?" *Journal of Economic Behavior and Organization* 58, no. 2 (October 2005): 200-45.

Tuesday, December 16: Final exam (7:30-9:30am)