

New York University
Department of Politics

Political Economy of Institutions
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Spring Semester 2010

Tuesdays and Thursdays 11:00-12:15

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Office hours: Thursdays, 12:15-1:15 p.m. and by appointment

Overview: The seminar introduces you to theoretical and empirical studies that examine the structure of economic systems and the nature of economic organization. We focus on social systems or mechanisms, which are based on laws, court decisions, public and private regulations, social norms and beliefs. Our questions include: Why and how do these systems and mechanisms arise? What effect do they have? Why are inefficient systems tolerated? We begin by introducing various research methods and tools and go on to consider applications in two areas: (1) the origins of the modern economy: the sources of modern growth, the rise of the modern firm, and why some countries are rich and others poor; and (2) problems of adjusting social systems to modern technologies—such as biotechnology, digital technology, computers and the Internet.

Research methods and tools: We employ the interdisciplinary approach of new institutional economics and related fields, such as political economy, law and economics, and economic history. The concept of property rights (broadly defined) is fundamental to our approach: Who really controls the utilization of a particular set of resources? What are the rights and duties of all involved? What can we say about their incentives? We pay much attention to all types of exchange and the cost of transacting. We are particularly concerned with: The political roots of imperfect social mechanisms; the idea of social equilibrium and limits to reforms; the relationship between physical and social technologies; and the role of incomplete knowledge in system failures.

Origins of modern economic growth: Rapid and sustained economic growth originated some 250 years ago in Western Europe. It is a unique event in human history, which has been intensely studied. What do we know about the sources of modern economic growth? What were the political and other pre-conditions? Why did these preconditions emerge where and when they did? We have seen a series of industrial revolutions beginning with the British Industrial Revolution. Underlying these developments is an explosive increase in the stock of useful knowledge. What do we know about the roots of the knowledge revolution and the forces that keep knowledge accumulating?

Adjusting social systems to modern technologies: In the Modern Age we have seen the *British*

Industrial Revolution (which took off just prior to 1800), the *Second Industrial Revolution* (emerging just prior to 1900), and now the rise of the *Knowledge Economy* (sometime late last century). Social systems and new physical technologies interact and reinforce each other, but only when they are compatible. When there is a mismatch, new physical techniques are not introduced or they malfunction. Successful introduction of revolutionary new production techniques is typically associated with new forms of business organization, new forms of political organization, new social organization, new economic geography, and new lifestyles. We examine some problems of adjustments to the new technologies of the modern Knowledge Economy. Major adjustments in social organization involve conflicting interests but there is also a problem of knowledge. When communities adjust their institutions to major new physical technologies, such as biotechnology, digital technology and the Internet, they have often limited knowledge of various aspects of the new social mechanisms and their consequences, which often gives rise to unintended outcomes and ideological struggles.

Course requirements:

The essays we read are inspired by methodological individualism and rely on some version of rational choice methodology. We look at studies that require basic understanding of microeconomic analysis and game theory. The essays sometimes employ statistical tests, which requires elementary knowledge of how to interpret statistical results.

I expect you to participate in class discussions and be *intellectually involved*. You must come to class prepared to discuss the readings and present us with *creative and original ideas*. Once or twice during the semester I will ask each student to prepare a two page critical report on one of the assigned readings and hand me a copy at the beginning of the class meeting when the relevant reading is discussed. I also want you to email to me a copy of your report. The report should consist of a very brief summary followed by a *personal discussion and critique* of key issues.

The structure of the final grade:

- (1) One or two short (1 or 2 pages each) evaluation papers: 20 %
- (2) Midterm (March 4): 20 %
- (3) Class attendance and participation 10 %
- (4) Final research paper (about 20 pages; due in class April 29) 50%

The short evaluation papers weigh 20% in the final grade.

I will address questions concerning the topics of the day to all the students during my lectures. Together class attendance and participation weigh 10% in the final grade.

There will be in-class, written mid-term on March 4. If students fail to take the mid-term for any reason their two reports will together weigh 30% and the final paper 60%. The mid-term grade is included in the final grade *only* if it increases the student's grade average.

The seminar's major requirement is a research paper of about 20 pages that examines the politics and economics of institutions. You have several choices. You can write about theoretical issues or undertake an empirical study. You can do a literature survey or write about some aspect social organization, in the United States or abroad, that you know personally or want to learn more about. Please write down a

paragraph or two about your ideas and clear the project with me *before Spring Break*. The paper is due at the final meeting of the seminar when we sum up.

There is no final examination.

Where to find the readings

All readings are available on the Blackboard course site (under “course documents”) and can be downloaded.

Schedule:

I. Property Rights and Institutions Leading to the Modern Knowledge Society

1st Week (a): Organization of the seminar. The issues (19 January)

Ronald Coase (1991). “The Institutional Structure of Production.” Nobel Prize Lecture published in *American Economic Review*, 82, No. 4: 713-19.

Douglass C. North (1994). “Economic Performance through Time.” Nobel Prize Lecture published in *American Economic Review*, 84, No. 3: 359-368.

1st Week (b): The theory of property rights and institutions (22 January 2010)

Thráinn Eggertsson (1990). “The Role of Transaction Costs and Property Rights in Institutional Analysis.” *European Economic Review* 34(2-4): 450-457.

Gérard Roland (2004). “Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions.” *Studies in Comparative International Development* 38(4): 109-131.

2nd Week (a): The emergence of the modern world (26 January 2010)

Joel Mokyr (2007). “The European Enlightenment, The Industrial Revolution, and Modern Economic Growth.” *Max Weber Lecture Series* (28 March).

2nd Week (b): The emergence of the modern economy (28 January 2009)

Alfred J. Chandler (1992). “Organizational Capabilities and The Economic History of The Industrial Enterprise.” *Journal of Economic Perspectives*, 6(3): 79-100.

3rd Week (a): The emergence of the modern economy, cont. (2 February 2010)

Naomi R. Lamoreaux et al. (2002). “Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History.” Working Paper 9029, National Bureau of Economic Research, Cambridge MA.

3rd Week (b): Economic development and the political economy of institutions (4 February 2009)

Barry R. Weingast (2008). Why Developing Countries Prove so Resistant to Rule of Law. Working Paper, Stanford University.

4th Week (a): Economic development and the political economy of institutions (9 February 2010)

Daron Acemoglu & James Robinson (2008). "The Role of Institutions in Growth and Development. Working Paper No. 10, Commission on Growth and Development, The World Bank.

4th Week (b): Open access and common property: Nature (11 February 2010)

Thráinn Eggertsson (2003). Open access and common property. Chapter 3 in Terry Anderson & Fred S. McChesney, *Property Rights: Cooperation, Conflict, and Law*. Princeton University Press.

Elinor Ostrom & Harini Nagenda (2006). "Insights on Linking Forests, Trees, and People From the Air, on the Ground, and in the Laboratory. *Proceedings of the National Academy of the Sciences* 103 (51): 19224-31.

5th Week (a): The Anticommons (16 February 2010)

Michael Heller (1998). "The Tragedy of the Anticommons. Property in the Transition from Marx to Markets." *Harvard Law Review* 111(3): 662-688.

5th Week (b): Property and natural resources (18 February 2010)

Gary Libecap (2003). Contracting for Property Rights. Chapter 6 in Terry Anderson & Fred S. McChesney, *Property Rights: Cooperation, Conflict, and the Law*. Princeton University Press.

6th Week (a): Institutional change and incomplete knowledge (23 February 2010)

Thráinn Eggertsson (2009). "Knowledge and the Theory of Institutional Change." *Journal of Institutional Economics* 5(2): 137-50.

6th Week (b): The nature of the corporation outside the Anglo-Saxon world (25 February 2010)

Randal Morck, *et al.* (2005), Corporate Governance, Economic Entrenchment, and Growth. *Journal of Economic Literature*, 43(September): 655-720.

7th Week (a): Review and discussion in preparation of midterm examination (2 March 2010)

7th Week (b): Midterm examination (4 March 2010)

II. Aspects of Institutions and Property Rights in the New Knowledge Society

8th Week (a): The New knowledge society and intellectual property rights (9 March 2010)

Paul A. David & Dominique Foray (2003). "An Introduction to the Economy of Knowledge Society." *Futures in Education* 1(1): 20-49.

Robert Merges (2008). The Concept of Property in the Digital Era. UC Berkeley Law School, An Essay (15 November).

8th Week (b): The new knowledge society and intellectual property rights, cont. (11 March 2009)

Richard A. Posner (2005). "The Law and Economics Approach." *Journal of Economic Perspectives*, 19(2): 57-73.

SPRING BREAK: 15-20 March 2010

9th Week (a): Anticommons and the knowledge economy: A severe problem? (23 March 2010)

Michael A. Heller & Rebecca S. Eisenberg (1998). "Can Patents Deter Innovation? The Anticommons in Biomedical Research." *Science* 280, 698-701.

Richard R. Nelson (2004). "The Market Economy and the Scientific Commons." *Research Policy* 33:455-471.

9th Week (b): Anticommons and the knowledge economy: A severe problem? Continued (25 March 2010)

Robert P. Merges (2004). "A New Dynamism in the Public Domain." *University of Chicago Law Review*, Vol. 71: 183-203.

Optional:

Fiona Murray & Scott Stern (2007). "Do Formal Intellectual Property Rights Hinder the Free Flow of Scientific Knowledge? An Empirical Test of the Anti-Commons Hypothesis." *Journal of Economic Behavior and Organization*. 63: 648-687.

10th Week (a): The new economic system (30 March 2010)

Hal R. Varian (2002): High-Technology Industries and Market Structure. University of California, Berkeley.

10th Week (b): (1 April 2010)

Bart van Ark, Mary O'Mahony, & Marcel P. Timmer (2008). "The Productivity Gap between Europe and the United States: Trends and Causes." *Journal of Economic Perspectives*, 22(1): 25-44.

11th Week (a): Reintroducing the commons: open-source software? (6 April 2010)

Margit Osterloh & Sandra Rota (2007). "Open Source Software Development—Just another Case of Collective Invention?" *Research Policy*, Vol. 36:157-171.

11th Week (b): Problems in the world of music (8 April 2010)

Stan J. Liebowitz & Richard Watt (2006). "How to Best Ensure Remuneration for Creators in the Market for Music? Copyrights and its Alternatives." *Journal of Economic Surveys*, Vol. 20(4): 513-45.

12th Week (a): Network industries (13 April 2010)

John McGee & Tanya A. Sammut Bonnici (2002). "Network Industries in the New Economy." *European Business Journal* 14: 116-32

12th Week (b): Economic aspects of the Internet (15 April 2010)

Glenn Ellison & Sara Fisher Ellison (2005). "Lessons about Markets from the Internet." *Journal of Economic Perspectives* 19(2): 139-58.

13th Week (a): The Internet and privacy (20 April 2010)

Randal C. Picker (2009). Online Advertising, Identity and Privacy. University of Chicago Law School, Law and Economics Working Paper No. 475.

13th Week (b): The evolution of property rights: Biotechnology (22 April 2010)

Thráinn Eggertsson (2008). Genetic Technology and the Evolution of Property Rights: The Case of Decode Genetics. University of Iceland, Institute of Economic Studies: Working Paper Series, W08:03.

Optional:

Darcie Sherman (2005): Biometric Technology: The Impact on Privacy. York University, Comparative Research in Law and Political Economy Paper Series 5/2005.

14th Week (a): Modern technology: The impact on society (27 April 2010)

Todd Sinai & Joel Waldfogel (2003). Geography and the Internet: Is the Internet a Substitute or Complement for Cities. National Bureau of Economic Research Working Paper 10028.

David S. Wall (2005). The Internet as Conduit for Criminal Activity. In A. Pattavina, ed. *Information and the Criminal Justice System*. Thousand Oaks, CA: Sage.

14th Week (b): Modern technology: The impact on society (29 April 2010)

James Brink (2007). Book Review—Yochai Benkler, *The Wealth of Networks: How Social Production Transforms Markets and Freedom*. York University, Toronto: Comparative Research in Law and Political Economy Research Paper Series 6/2007.

Optional:

Edward E. Leamer (2007). “A Flat World, a Level Playing Field, a Small World After All, or None of the Above? A Review of Thomas L. Friedman’s *The World is Flat*.” *Journal of Economic Literature*, Vol. 45(March): 83-126.