

Economics 125  
Spring 2003

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Comparative Institutional Economics  
Reading list

It is impossible to understand differences in economic behavior and performance within and across nations and over time without understanding the role of economic institutions, such as firms, financial and fiscal systems, constitutions, and political systems. This course focuses on the role of institutions in shaping economic behavior and performance, including the institutions in nations that are transitioning from socialist to capitalist systems, in developing economies, and in the advanced industrial economies.

As part of its focus on economic institutions, this course surveys the New Institutional Economics. We will investigate the implications for economic behavior and performance of transaction costs, property rights, information asymmetries and other conditions bearing on market efficiency and failure. Key questions that we examine in this course are: (i) How do institutions differ across countries?, (ii) How do institutions change over time?, (iii) How do institutions shape the economic behavior and performance of individuals, institutions, and nations?, and (iv) What can we learn from institutional differences across nations and across time?

There is no assigned textbook for this course. The readings are available through the Brandeis University Library electronic reserve. The password is "*institutions*". Readings posted with an asterisk (\*) are available through JSTOR (accessible through Brandeis University electronic resources):

<http://www.library.brandeis.edu/resources/ejs/economics.html>

Students may also wish to access working papers from the working paper series of the William Davidson Institute at the U of Michigan Business School

<http://www.wdi.bus.umich.edu/>

Course requirements include an (in-class) mid-term exam, a final exam, and from one to three essays that together total 10-12 pages.

**You are expected to be honest in all of your academic work. The University policy on academic honesty is distributed annually as section 5 of the Rights and Responsibilities handbook. Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. If you have any questions about my expectations, please ask.**

**If you are a student with a documented disability on record at Brandeis University, and if you wish to request a reasonable accommodation for this class, please see me immediately. Please keep in mind that reasonable accommodations are not provided retroactively.**

### **1. Institutions and the New Institutional Economics**

\*North, Douglas C. (June 1994), "Economic Performance Through Time," *American Economic Review*, 84,3:359-368.

Furubotn, Eirik and Rudolf Richter (1997), Chapter 1, "Introductory Observations," *Institutions and Economic Theory*, University of Michigan Press, Ann Arbor, MI.

\*Coase, Ronald H. (September 1992), "The Institutional Structure of Production," *American Economic Review*, 82,4:713-719.

Furubotn, Eirik and Rudolf Richter (1997), Chapter 2, "Transaction Costs," *Institutions and Economic Theory*, University of Michigan Press, Ann Arbor, MI.

### **III. Measures and Models of Transition**

\*Fisher, Stanley and Alan Gelb (Fall 1991), "The Process of Socialist Economic Transformation," *Journal of Economic Perspectives*, 5,4:91-105.

\*Friedman, Eric J. and Simon Johnson (1996), "Complementarities in Economic Reform," *Economics of Transition*, 4,2:319-330.

\*Qian Yingyi and Xu Chenggang (1993), "Why China's Economic Reforms Differ: the M-Form Hierarchy and Entry/Expansion in the Non-State Sector," *Economics of Transition*, 1:135-170.

\*Falcetti, Elisabetta, Martin Raiser, and Peter Sanfey. June 2002, "Defying the Odds: Initial Conditions, Reforms, and Growth in the First Decade of Transition," *Journal of Comparative Economics*, 30,2:229-251.

### **IV. Socialism: the Incentive Problem**

Jefferson, Gary H. (1999), "Missing Markets in Labor Quality: the Role of Quality Markets in Transition," The Davidson Institute Working Paper Series, #260.

Handout , "The Solow model and its implications for growth under central planning"

Maskin, Eric and Xu Chenggang (2001), "Soft Budget Constraint Theories," *Economics of Transition*, 9(1):1-27.

## V. The Firm

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

Jensen, Michael and William Meckling (1976), "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," pp. 209-229, in L. Putterman, ed. *The Economic Nature of the Firm*, Cambridge University Press, 1986.

Hart, Oliver (1989), "An Economist's Perspective on the Theory of the Firm: Managerial Behavior," *Columbia Law Review*, 89:1756-1774.

## VI. Enterprise Reform and Privatization

Aghion, Philippe and Oliver Blanchard (1998), "On Privatization Methods in Eastern Europe and their Implications," *Economics of Transition*, 6(1):89-99.

Roland, Gerard (2000), "Better Incentives versus Softer Budget Constraints and Asset Stripping" (Chapter 10.2.2, pp. 252-256), *Transition and Economics: Politics, markets, and Firms*, MIT Press.

## VII. Financial Sector Reform

Bergloff, E. and G. Roland (1997), "Soft Budget Constraints and Credit Crunches in Financial Transition," *European Economic Review*, 41(3-5):807-818.

\*Dewatripont, M. and E. Maskin (1995), "Credit and Efficiency in Centralized and Decentralized Economies," *Review of Economics and Statistics*, 62:541-555.

Jefferson, Gary H. (2001), "The Commons Economy: A Property Rights Interpretation of Financial Crisis," Brandeis University.

## VIII. The Role of Constitutions in Shaping Institutions and Economic Performance

Buchanan, James, (1987), "Constitutional Economics," in the *New Palgrave*.

Elster, Jon (1994), "The Impact of Constitutions on Economic Performance," *Proceedings of the World Bank Annual conference on Development Economics*, World Bank, Washington, D.C.

Broadman, Harry G. and Francesca Recanatini. 2002, "Corruption and Policy: Back to the Roots," *Policy Reform*, 5:37-49.

\*Qian, Yingyi and Barry R. Weingast (1997), "Federalism as a Commitment to Preserving Market Incentives," *Journal of Economic Perspectives*, 11,4:83-92.

Williamson, Oliver E. (2000), "The New Institutional Economics: Taking Stock, Looking Ahead," *Journal of Economic Literature*, 38: 595-613.