The course has two goals. The first is to teach you how to think like a professionally active academic economist. To this end, we will spend a considerable amount of time honing your critical faculties. You are to be prepared to discuss in class the assigned readings and requested to write one page critical reviews of the assigned workshop papers, due the day of the workshop. In addition to the critical reviews, you are required to write a term paper on a topic of your choosing. During the semester, you will present your papers in class to be criticized. Copies of the papers will be handed out ahead of time. Criticism should be constructive rather than destructive.

The second goal of the course is to expose you to the literature known as the New Institutional Economics which is a blend of economics, political science and law. Its founders include two recent Nobel Prize Laureates, Ronald Coase and Douglass North. By institutions I mean the laws and norms of society. It is important to understand how institutions shape incentives because institutions determine the costs of contracting or in the language of the discipline, transaction costs. By transaction costs, I mean the negotiation, monitoring and enforcement costs associated with contracting. Transaction costs exist in all contracts, contracts within firms, between firms and between firms and individuals. Neo-classical economics frequently assumes that transaction costs are zero and by assuming they are positive the NIE reaches different implications. Transaction costs are also important in all interpersonal relationship not just market activity. For example an understanding of transaction costs is central to understanding incentives in internal organizations such as political bodies and non-profit organizations. The transaction costs as much if not more than the physical costs of production, determine economic performance. Yet, despite vast differences in the performance of economies around the globe, societies have not converged to a universal set of institutions. To address this latter issue we will discuss and analyze the determinants of institutions.

Certain concepts are in the tool kit of the new institutional economics. These include property rights, transaction costs, agenda control, asset specificity, rent-seeking, public choice, path dependence, social norms, and credible commitment inter alia. This set of tools is extremely important for understanding policy as well as contracting. For an appreciation of the new institutional economics I encourage you to check out the web site of the International Society of the New Institutional Economics – http://www.isnie.org

**Required Books:**
COMPONENTS OF YOUR GRADE:

Class participation - 30%
Class discussion leader - 10%
Critiques of Workshop papers - 30%
First draft of term paper - 20%
Revision of term paper - 10%

CLASS SCHEDULE

Aug 27    Introduction
Aug 29    The New Institutional Economics: What is it?
          Alston and Eggertsson Introductions in Empirical Studies in Institutional Change
Sept 3    The Origin of Transaction Costs
Sept 5    Transaction Costs: the view from labor
Sept 10   Institutions: Constraints on Behavior
          North: Part I
Sept 12   Institutions: Where Do They Come From & How Do They Affect Economic Growth
          North: Parts II & III
Sept 17  Institutions and Property Rights


Sept 19  Towards an Understanding of Property Rights in the Wild West I


Sept 24  Towards an Understanding of Property Rights in the Wild West II


Sept 26  Towards an Understanding of Property Rights in the Amazon


Oct 1  Workshop – Thrainn Eggertsson, University of Iceland

“The Subtle Art of Institutional Reform: ITQs and Property Rights in Iceland’s Fisheries Zone”

Oct 3  Property Rights and Transactions Costs in a Feudal World


Oct 8  Property Rights in Politics


Oct 15  Transaction Costs in the Developing World


Oct 17  Workshop, Jeffrey Nugent, University of Southern California

“When do Land Rights Become Effective? Evidence from Coffee Growing Regions”

Oct 22  Credible Commitment Part I


Oct 24    Credible Commitment Part II


La Porta, Rafael, Florencio Lopez-de-Silanes, Cristian Pop-Eleches, and Andrei Shleifer (2002) "The Guarantees of Freedom" Harvard Institute of Economic Research

West, Michael (2002) "

Oct 29    Takings

Cheung, Steven (1975) "Roofs or Stars: The Stated Intents and Actual Effects of Rent Ordinance," Chapter 6, in Alston, Eggertsson and North.


Oct 31 Workshop, Gary Libecap, University of Arizona

"U.S. Land Policy, Small Farms and the Dust Bowl of the 1930s"

Nov 5    Corruption


Norlin, Kara (2002)

Nov 7    The Politics and Economics of Institutional Change


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<tr>
<th>Date</th>
<th>Event</th>
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