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August 24, 2015

# New Institutional Economics, Econ 4504

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Fall 2015

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*TTH 9:30-10:45 a.m. in ECON 117*

## *Course Outline*

Professor: Wolfgang Keller

Office: Economics 206C

Office Hours: Tu 11:00am – 12:00 noon and Th 1:00pm – 2:00pm

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## **Text**

Daron Acemoglu and James A. Robinson, *Why Nations Fail*, Crown Business and Random House, 2012.  
Abbreviated AR. Copies of the book have been ordered at the bookstore.

## **Objectives of the course**

Institutions, the rules of the game in an economy, feature prominently in recent explanations of why some people in the world are rich and others are poor. The subfield of New Institutional Economics is one outcome of that. Our textbook is by two of the most influential proponents of this idea, written for a general audience. The textbook readings will be our entry point to journal articles providing additional analyses. They draw on both historical and contemporaneous episodes that allow substantiating, extending, or questioning the primacy of institutions as the main reason for differences in per-capita income. In this class students will learn about major explanations of income differences, the relationship between them, and how to develop a compelling test of one or more of these explanations. While the course connects to law and political science, we will mainly employ simple economic concepts (costs versus benefits, incentives) and statistical analysis applied to economics.

## **Prerequisites**

Econ 1088 Math Tools for Economists II or equivalent.

**Class Email:** I will be using the class email list for this course to communicate information about classes. Please check your CU email account to ensure that you will be up to date with the latest announcements.

## Course Requirements

Your grade will be based on a midterm exam, a final exam, and two group presentations. One is a presentation of a published research article, and the other is of your own research report explaining U.S. income differences. The weights in the final grade are:

Midterm	20%
Research report	
Outline by Oct 8	10%
Final report and presentation	20%
Presentation of published research article	15%
Final Exam	35%

## Research report

In your report you will analyze variation in today's incomes and economic activity across regions (such as counties) in the United States of America. The goal will be to explain this variation by uncovering at plausible causes in the past. To do so you will find and employ information on past variation in economic variables and compare it with the variation in incomes and economic activity today. The statistical offices of the United States have collected such data, and it is made available through various websites, in particular the website of the U.S. Census, [www.census.gov](http://www.census.gov), including County Business Patterns, <http://www.census.gov/econ/cbp/>, and American Community Survey, <https://www.census.gov/programs-surveys/acs/data.html>. I will present an example of this approach early in class.

By the fourth week of class, students will organize into groups of about three and decide on the project they undertake. Then, the group should prepare a preliminary draft (4 pages) to turn in by October 8. The group will receive feedback from the Professor. The final draft of the research report, in hardcopy, is due on the last day of class. The report should be about 10 pages long, double-spaced in at least 11-point font, including all references and tables and figures. During the last two weeks of class each group will give a short presentation of their findings.

## Presentation of an Article on the Syllabus

Presentations will be randomly assigned and you will be responsible for a presentation of 20 minutes of an article on the syllabus, and, the crafting of three questions directed to the class to initiate discussion.

I will be choosing some of the questions to include on the final exam. Depending on class size, students may be assigned together in teams to work together on the presentation. Presentation slides must be emailed to me at least 1 hour ahead of class so that we can avoid wasting class time setting up presentation material.

**Class Attendance and Participation:** Participation is important for this class and you should attend class unless you are ill. I will hand out sign-up sheets on randomly chosen dates to evaluate attendance. You can miss 4 classes for any reason. Beyond 4 classes, each recorded absence will negatively impact your final grade so that three additional missed classes move you by a full grade (e.g. from a B to a C).

**Policy on Late Work and Exams:** There are no makeup examinations for missed exams. If you miss the midterm due to an emergency, your grade will be reweighted by the final exam. The research report and the paper presentations are long-term projects that cannot be missed because of an emergency. All students must take the final exam to pass the course.

The final exam is on Dec 15 at 1:30pm. It is comprehensive. Students who have three or more final exams on the same day are entitled to reschedule the last exam or exams that day, but must make arrangements to do so no later than October 20, 2015.

## Topic outline and readings as of August 24, 2015

The schedule is approximate and subject to change based on class progress. Articles in the *Journal of Economic Perspectives* and other journals are available on the CU library website.

### I. Introduction: Rich and poor, today and in the past (weeks 1-2)

- AR Chapter 1
- Charles I. Jones, 1997, "On the Evolution of the World Income Distribution", *Journal of Economic Perspectives*, 1997, 11(3), p. 19-36.
- U.S. regional economic development: Convergence, divergence, or persistence? In-class exercise using U.S. Census data
- **Student Presentation 1:** Lant Pritchett, "Divergence, Big Time," *Journal of Economic Perspectives*, 1997, 11(3), pp. 3-17.

### II. Institutions (weeks 2-3)

- AR Preface
- Douglass C. North and Robert A. Thomas, *The Rise of the Western World*, 1973; starting at \$ 17.20 at amazon.com
- Avner Greif, Chapter 1 in *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade*, 2006, Cambridge University Press, [http://web.stanford.edu/~avner/Greif\\_Institutions/0%201%20Chapter%201%20Introduction.pdf](http://web.stanford.edu/~avner/Greif_Institutions/0%201%20Chapter%201%20Introduction.pdf)
- **Student Presentation 2:** Douglass North, "Institutions", *Journal of Economic Perspectives*, Vol. 5, 1, Winter 1991, pp.97-112.

### III. Income differences and proximate factors (weeks 3-4)

- Martin N. Baily and Robert M. Solow, "International Productivity Comparisons Built from the Firm Level", *Journal of Economic Perspectives*, Vol. 15(3), Summer 2001, 151-172
- Hall, Robert, and C. Jones, 1999
- Daron Acemoglu, Francisco A. Gallego, and James A. Robinson, 2014, "Institutions, Human Capital and Development", *Annual Review of Economics* 6: 875-912.
- **Student Presentation 3:** Nicholas Bloom and John Van Reenen, "Why Do Management Practices Differ across Firms and Countries?", *Journal of Economic Perspectives*, Vol. 24(1), Winter 2010, pp. 203-224.

### IV. History, persistence, and causal effects (weeks 4-5)

- Nunn, Nathan, "The Long-Term Effects of Africa's Slave Trade", *Quarterly Journal of Economics* 123(1): 139 – 76.
- Melissa Dell, "The Persistent effects of Peru's mining *mita*", *Econometrica* Vol. 78, No. 6 (2010): 1863-1903.
- **Student Presentation 4:** Nathan Nunn, "The Importance of History for Economic Development" *Annual Review of Economics*. 1: 65-92.

### V. Political institutions and economic development (weeks 5-6)

- AR Chapter 7
- David Stasavage. 2002. "Credible Commitment in Early Modern Europe: North and Weingast Revisited." *Journal of Law, Economics, and Organization* 18(1), pp. 155-86.
- Saumitra Jha, "Financial asset holdings and political attitudes: evidence from revolutionary England", Stanford working paper, 2015
- **Student Presentation 5:** North, Douglass C. and Barry R. Weingast, 1989, "Constitutions and Commitment: the Evolution of Institutions Governing Public Choice in Seventeenth-century England." *The Journal of Economic History*, 49(4): 803-32

### VI. Colonialism in different forms: extractive versus inclusive institutions (weeks 6-7)

- AR Chapters 1,3
- Daron Acemoglu, Simon Johnson, and James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation", *American Economic Review* 91: 1369 – 1401.

October 8: Research report outline due

### VII. The legal system (weeks 7-8)

- Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, 1998, "Law and Finance", *Journal of Political Economy* 106(6): 1113 – 1155.
- **Student Presentation 6:** Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2008, "The Economic Consequences of Legal Origins", *Journal of Economic Literature* 46(2): 285-332

October 20: Midterm exam

VIII. **Geography and Climate (weeks 8-9)**

- John L. Gallup and Jeffrey D. Sachs, with Andrew Mellinger, 1999, "Geography and Economic Development", CID Working Paper No. 1, March 1999, Harvard University
- Diamond, Jared, 1997, *Guns, Germs, and Steel*, W. W. Norton and Co. Kindle version \$ 9.84 at amazon.com, paperback starting at \$ 4.10
- AR Chapter 2
- **Student Presentation 7:** John L. Gallup and Jeffrey D. Sachs, 2001, "The Economic Burden of Malaria", *American Journal of Medicine and Hygiene* 64(1, 2) Supplement: 85-96.

IX. **Culture (weeks 9-10)**

- Nathan Nunn and Leonard Wantchekon,, "The Slave Trade and the Origins of Mistrust in Africa", *American Economic Review* 101 (December 2011): 3221-3252.
- Avner Greif, "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies", *Journal of Political Economy*, 102(5): 912 – 950.
- Raymond Fisman and Edward Miguel, 2007, "Corruption, Norms, and Legal Enforcement: Evidence from Diplomatic Parking Tickets", *Journal of Political Economy* 115(6): 1020 – 1048
- AR Chapter 2
- **Student Presentation 8:** Luigi Guiso, Paola Sapienza and Luigi Zingales, 2006, "Does Culture Affect Economic Outcomes?", *Journal of Economic Perspectives* 20(2), Spring 2006: 23-48.

X. **Religion (weeks 10-11)**

- Ying Bai and James Kai-sing Kung, 2015, "Diffusing knowledge while spreading god's message: Protestantism and economic prosperity in China, 1840-1920", *Journal of European Economic Association* 13(4): 669-698.
- Cantoni, Davide, 2015, "The economic effects of the Protestant reformation: testing the Weber hypothesis in the German lands", *Journal of European Economic Association* 13(4): 561-598.
- AR Chapter 2
- **Student Presentation 9:** Rachel M. McCleary and Robert J. Barro, 2006, "Religion and Economy", *Journal of Economic Perspectives*, Vol. 20(2), Spring 2006: 49-72.

XI. **The choice of institutions: domestic versus external influences (weeks 11-12)**

- AR Chapter 10
- Acemoglu, Daron, Davide Cantoni, Simon Johnson, and James Robinson 2011, "Consequences of Radical Reform: The French Revolution", *American Economic Review* 101(7): 3286-3307.
- **Student Presentation 10:** Kenneth L. Sokoloff and Stanley L. Engerman, 2000, "Institutions, Factor Endowments, and Paths of Development in the New World", *Journal of Economic Perspectives* Vol. 14(3), Summer 2000: 217-232.

XII. **The interaction of institutions and culture with proximate factors (weeks 12-13)**

- AR Chapters 4,6

- Daron Acemoglu, Simon Johnson, and James Robinson, 2005, “The Rise of Europe: Atlantic Trade, Institutional Change, and Economic Growth”, *American Economic Review* 95: 546-79.
- Sascha O. Becker and Ludger Woessmann, 2009, “Was Weber wrong? A human capital theory of Protestant economic history”, *Quarterly Journal of Economics* 124(2): 531-596
- Puga, Diego, and Daniel Treffer, 2014, “International Trade and Institutional Change: Medieval Venice’s response to globalization”, *The Quarterly Journal of Economics* (2014) doi: 10.1093/qje/qju006

November 24-26: Thanksgiving week, no class

Dec 1, 3, 8: Student research report presentations

### XIII. **Institutions and income differences: what have we learned? (Dec 10)**

We will observe all CU policies, including

<http://www.colorado.edu/policies/academic-integrity-policy>

<http://www.colorado.edu/policies/academic-integrity-policy-two>

<http://www.colorado.edu/policies/final-examination-policy>

<http://www.colorado.edu/policies/observance-religious-holidays-and-absences-classes-andor-exams>

<http://www.colorado.edu/policies/student-classroom-and-course-related-behavior>

<http://www.colorado.edu/policies/student-honor-code-policy>