
New Institutional Economics, Econ 4504

Spring 2016

MWF 9:00-9:50 a.m. Club 4

Course Outline

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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. Introductory Statistics or Econometrics is useful but not required as the necessary concepts will be covered in class.

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.

I will be posting additional class material and announcements on D2L; check there frequently.

Course Requirements

Your grade will be based on a midterm exam, a final exam, one published-research presentation, and a research report that you will also present. The weights in the final grade are:

Midterm	20%
Research report	
Outline presentation	10%
Final report and presentation	20%
Presentation of published research article	15%
Final Exam	35%
Obtain an account with IPUMS	Required

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 employ information on past variation in economic variables and compare it with the variation in incomes and economic activity today, for the United States. We choose the United States because there, statistical offices make data available through various websites. Every student enrolled in the class is required to obtain an account at IPUMS <https://usa.ipums.org/usa/>, which will allow you to obtain and manipulate real-world micro data. An introduction is provided on youtube at <https://www.youtube.com/watch?v=3HFazeMp3u8>.

There is also the website of U.S. Census, 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, you should have started to narrow down your research focus and work on your research report. You will prepare an outline of 3 pages and hand it in to the professor by February 26, and will receive individual feedback on it. The final draft of the research report, in hardcopy, is due on the last day of class, April 29. The report should be no longer than 10 pages, double-spaced in at least 11-point font, including all references and tables and figures. During the final period of class you will give a short presentation of your research findings.

Presentation of an Article on the Syllabus

You will be responsible for a presentation of 20 minutes of a published article on the syllabus. The professor will assign these articles within the first two weeks of class. Every student in class is required to read these articles as well and produce three questions to initiate classroom discussion. After the

presentation by the assigned student, I will randomly pick another student to initiate the discussion with her or his three questions. 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 other grade components. 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 May 5 at 4:30pm. 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 March 25.

Textbook

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.

Other

Nathan Nunn, "The Importance of History for Economic Development" *Annual Review of Economics*. 1: 65-92.

Course outline

The schedule is approximate and subject to change based on class progress and other considerations. 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
- **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; http://papers.ssrn.com/sol3/papers.cfm?abstract_id=934943
- **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.

February 26: 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

March 2: 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.

March 21, 23, 25: Spring Break

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

April 20, 22, 25, 27: Student research report presentations

XIII. **Institutions and economic prosperity: what have we learned? (April 29)**

Policies

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>

Please be respectful to the professor and other students, and turn off your cell-phones and laptops during class.