

# INSTITUTIONAL ECONOMICS

## Course Brief Description

Number of credits: 3 ECTS

Course period: 1 semester / Fall (17 hours lectures + 17 hours seminars+tutorials) Language of Instruction: English

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### Course description:

The course is designed to give an introduction to the fields of new institutional economics, with a focus both on the basic theory and on contemporary empirical research. We will look on how institutions shape the incentives of economic agents, and how this influences economic outcomes in various contexts. Students will also study the emergence of institutions, and compare institutionalist theories of economic development with theories that place other factors at the center of their analysis. The objective of the course is to give students a solid foundation in the basic concepts of new institutional economics, as well as a first impression and understanding of the topics studied and the methodologies used at the frontier of institutional research today. Throughout the course, students will learn how to read research papers, how to judge the quality of a research paper (evaluate the data and methodology used), and how to read and interpret empirical results.

**Lectures and reading materials.** At the lectures students are given main ideas in the field of institutional economics as a significant part of present economy. To enlarge their knowledge in this area students are provided with the list of additional readings.

**Seminars.** The seminars are conducted in the forms of calculations, projects, role-play, discussions, team work.

**Assignments.** There are several assignments within the course:

- 1) Tasks based on the state-seller matrices in the different situations. These questions are to be answered in the beginning of the classes and count as 15% of the final grade (each counts 5%).
- 2) The midterm exam (test) counts as 40% of the final grade
- 3) The final exam (test) counts as 45% of the final grade.

Grading:

ECTS Grade	Points	Russian grade
A	100-91 points	“excellent”: 100–80 points
B	90-81	
C	80-71	“good”: 79– 60 points
D	70-61	
F: failed	less than 60 points: failed	“satisfactory”: 59–40 points

“unsatisfactorily”: failed, less than 40 points

### Structure of the course

#	Topic	Brief Contents
T. 1	The subject and methodology of institutional economic theory	<p>The emergence of institutional theory as a direction of economic science. The theoretical content of early institutionalism. Institutional concepts of T. Veblen. Economic - legal theory of J. Commons. The theory of business cycles and monetary circulation by W. Mitchell. The development of institutional economic theory in the postwar period.</p> <p>Research programs in economic theory. Critical analysis of the prerequisites of neoclassical economic theory. Limits of applicability of the neoclassical approach. Institutional approach as an alternative research program. The main prerequisites of the new institutional economic theory. Methodological comparativistics: an institutional and neoclassical approach to building models.</p> <p>The structure of institutionalism and levels of analysis. Neoinstitutional economic theory, its main directions. New institutional economic theory. Traditional institutionalism and new institutional economic theory: a comparative analysis.</p> <p>The subject field of the new institutional economic theory. Prospects for the development of a new institutional economic theory. The practical applicability of institutional theories.</p>
T. 2	Behavioral aspects in institutional theory	<p>Behavioral aspects in orthodox economic theory. Rational behavior. The principle of rationality. The main forms of rationality according to O. Williamson. Maximize Limited rationality. Organic rationality. Self-interest orientation. Opportunism. Just follow your interests. Obedience.</p> <p>Behavioral prerequisites of institutional analysis. Limited rationality. Opportunistic behavior: the essence and the main manifestations. Opportunism. The principle of satisfactory.</p>

<p>T. 3</p>	<p>The economic theory of institutions</p>	<p>Institute: the problem of defining the concept. The main types of situations leading to the emergence of the institute. The functions of institutions in the economy. The restrictive function of institutions. Coordinating function of institutions. The distribution function of institutions. Institutional conflict.</p> <p>Routine Rule (norm) as a basic element of institutions. Institutional structure of society. Informal rules, their role in society. Classification of sanctions for non-compliance with informal rules. Conditions for the effectiveness of informal rules. Formal institutions. Hierarchy of rules according to D. North. Supraconstitutional rules. Constitutional (political) rules. Economic rules. The rights. Property rights. Classification of rights and rules E. Ostrom. The relationship between formal rules and informal norms. Types of interrelation of formal rules and informal norms.</p> <p>The role of enforcement mechanisms to enforce the rules. Classification of sanctions. Self-fulfilling rules. The impact of institutions on the effectiveness of the economic system. The dependence of the efficiency of the economic system on the effectiveness of its institutional framework. The factor of underproduction of individual institutions. Institutions that increase the efficiency of the economic system. Neutral institutions. Institutions that reduce the effectiveness of the economic system. Ineffective institutions. Effective institutions. Institutional structure as an alternative criterion of socio-economic efficiency.</p>
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<p>T. 4</p>	<p>Theory of transaction costs</p>	<p>The notion of transaction. Transaction classification J. Commons. Trading Transaction Transaction management. Transaction rationing.</p> <p>Williamson Transaction Concept. The main parameters of transactions and their impact on costs: uncertainty, frequency of transactions, the degree of specificity of assets involved in the transaction. Types of contractual relations management structures: market, trilateral, two-way, and one-way. Fundamental transformation: the essence of the phenomenon and factors of occurrence.</p> <p>The concept of "transaction costs". Sources of transaction costs and their scope. Types of transaction costs. Market transaction costs. Corporate Transaction Costs Political Transaction Costs. Non-market transaction costs. Non-measurable transaction costs. Classification transaction costs North - Eggertsson. Coordination and Motivation Costs: Milgrom - Roberts Classification. Dalman classification. Factors affecting the overall level of transaction costs.</p> <p>Market transaction costs and ways to save them. Transaction costs and basic types of economic exchange: personalized exchange, non-personalized exchange without third-party contract protection, non-personalized exchange with third-party protection by the state.</p> <p>Demsentz model: measurement of transaction costs arising in a particular market at a particular point in time. The study of aggregate indicators of North and Wallis. Transaction costs, institutions, and cost effectiveness.</p>
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T. 5	Theory of Contracts	<p>Different approaches to the definition of the contract. Legal and economic approaches to the concept of "contract". The role of contracts in the coordination of economic agents.</p> <p>Types of contracts. The concept of a perfect contract. Limited rationality and the inability to conclude a perfect contract. Problems caused by incomplete real contracts.</p> <p>Adverse selection: the mechanism of occurrence and how to prevent it.</p> <p>Moral hazard: conditions of its occurrence and ways to prevent.</p> <p>Extortion as a form of opportunistic behavior. The specificity of resources and the risk of extortion.</p> <p>Legal classification of contracts. Classic contract. Neoclassical contracting model. Features of the relationship contract. Factors affecting the choice of the type of contract. Alternative discrete structures for managing transactions: market, hybrid forms and hierarchy.</p> <p>Theory of incomplete contracts: approaches to modeling. Agency Theory.</p>
T. 6	The economic theory of property rights	<p>Different approaches to the definition of the contract. Legal and economic approaches to the concept of "contract". The role of contracts in the coordination of economic agents.</p> <p>Types of contracts. The concept of a perfect contract. Limited rationality and the inability to conclude a perfect contract. Problems caused by incomplete real contracts.</p> <p>Adverse selection: the mechanism of occurrence and how to prevent it.</p> <p>Moral hazard: conditions of its occurrence and ways to prevent.</p> <p>Extortion as a form of opportunistic behavior. The specificity of resources and the risk of extortion.</p> <p>Legal classification of contracts. Classic contract. Neoclassical contracting model. Features of the relationship contract. Factors affecting the choice of the type of contract. Alternative discrete structures for managing transactions: market, hybrid forms and hierarchy.</p> <p>Theory of incomplete contracts: approaches to modeling. Agency Theory.</p>

T. 7	Theory of the company	<p>Alternative approaches to the explanation of the company and its boundaries. Neoclassical theory of the firm. Coase on the causes of the company and its boundaries. Contract theories of the firm. Theories of the firm, based on the model of "principal - agent." Theories of the company, based on the idea of incomplete contracts. Approach from the standpoint of the theory of property rights.</p> <p>Typology of firms. Private business firm. Partnership. Self-governing firm. Unprofitable company. State firm. Regulated firm. Corporation.</p>
T. 8	State Theory	<p>The main theoretical approaches to determining the nature of the state. The main elements of an institutional approach to the theory of the state. Alternative state explanations: contractual, exploitative, and synthetic approaches. Model of the State of North.</p> <p>Modes of violence: stationary and wandering gangsters. McGuire-Olson model. Balance in the model. Findlay-Wilson model. Limitations of the monopoly power of the ruler. Redistributive functions of the state and rent-oriented behavior.</p>
T. 9	Theory of institutional change	<p>The content of the concept. Different approaches to the analysis of institutional changes. Neoclassical approach, new economic history, historical institutional analysis.</p> <p>Classification of institutional changes. Discrete and incremental changes according to D. North. Spontaneous, targeted and mixed institutional changes. The subject of institutional change.</p> <p>Institutional balance. Causes of institutional change. Internal incentives to change the rules. External causes of institutional change. The basic model of institutional change, formulated by D. North.</p> <p>Trajectories of institutional change. Evolutionary development of institutions. Formation of new informal norms. Technology borrowing strategies and institutions. Mechanisms of institutional change. Dependence on the trajectory of previous development. The effect of blocking.</p> <p>Institutional change and transitional economies. Compensation transactions as a tool for institutional change.</p>