

# DUKE UNIVERSITY

## ECONOMICS 751 / POLITICAL SCIENCE 762

### The Political Economy of Institutions

*Spring 2016*

**Timur Kuran**

*Classes:* Wednesday, 6:15 - 8:45 PM, 111 Social Sciences

*Offices:* 234 Social Sciences Building and 215 Gross Hall

*Office hours:* Wednesday, 1:30 - 3:30 (Gross office through March 2; SS office after that)

*Electronic mail:* [t.kuran@duke.edu](mailto:t.kuran@duke.edu) • *Telephone:* (919) 660-1872, (919) 660-4302

*Web page:* <http://econ.duke.edu/people/kuran>

### *Purpose*

The purpose of this course is to introduce students to diverse scholarly literatures on the significance of social institutions, with an emphasis on ongoing debates in political economy—a subfield that uses economic reasoning and techniques to study subjects at the heart of political science.

A bit more than half of the course addresses the social mechanisms that govern institutional transformations. The emphasis is on the methodologies used to study institutional change, especially within economics, political science, and historical legal studies. Attention is paid to the pace of institutional transformations, latent change, social inertia, political revolutions, and links among beliefs and behaviors. Case studies are drawn from diverse contexts, but especially commercial organization and political governance.

The rest of the course focuses on selected social functions of institutions. Again, the emphasis is on pertinent analytical methodologies. The following functions will be covered: coping with cognitive limitations, the provision of collective goods, redistribution, and rent seeking. Other functions, such as control of free riding, credible commitment, coordination, protection of expectations, generation of common knowledge, and the reduction of transaction costs, may be covered briefly at the end, if time permits, and depending on class interest.

Modern institutional political economy is interdisciplinary, and the course reflects this characteristic. Assigned readings include contributions by economists, political scientists, and legal scholars.

Without paying attention to institutions, one cannot understand why some societies are wealthy and others poor; why some are innovative and others stagnant; or why some are politically stable and others in perpetual turmoil. As such, this course should be of direct interest to students of economic

development, economic history, social inequality, and democratization, among other fields of social inquiry. The course will cover essential material for any student planning to write a dissertation that deals with social institutions.

## *Requirements*

Midterm: March 2 (Wednesday), in class

Paper (exclusive of bibliography, 4000-5500 words) due on April 25 (Monday), 11 PM

Final: May 2 (Monday), in class, 7-10 PM.

The paper must draw on themes of the course (see instructions at end of syllabus). The course grade will be based partly on written work (20% midterm, 30% term paper, 30% final) and partly on class participation (20%). Except in cases of medical or family emergencies, absences from lectures will affect the class participation component of the grade.

## *Lectures and discussions*

The class hours are reserved for lectures and discussions around the assigned themes. Audio or videotaping of the lectures is not allowed. The lectures will be accompanied by powerpoint slide shows. Lecture slides will be posted on the Sakai site for the course (ECON.751.01.S16) only when the material is not found in a reading included in the syllabus.

## *Readings*

The required readings are starred. In a few cases students have a choice among two or more readings. The major required books are available at the textbook store (marked **T**). All of these are available also through Amazon and other online booksellers. More than thirty articles and book chapters are posted on the course Sakai site (marked **S**). Additional readings have been placed on reserve at Perkins library (marked **R**).

The readings and lectures are designed to complement one another. The lectures will necessarily omit certain details in the readings. By the same token, they will often go beyond the material found in assigned readings.

## *Students with Disabilities*

Any student with a disability is asked to notify me at the start of the course. Every effort will be made to accommodate special needs. Special arrangements may be made for disabled students working through Disabilities Services (668-1267).

# Outline

## I. INSTITUTIONS AS CONSTRAINTS AND EQUILIBRIA (Class 1)

- S** Geoffrey M. Hodgson, “The Approach of Institutional Economics.” *Journal of Economic Literature*, 36 (1998): 166-92.
- R** Douglass C. North, *Understanding the Process of Economic Change*. Princeton: Princeton University Press, 2005 (chs. 5, 9).
- R** Eirik G. Furubotn and Rudolf Richter, *Institutions and Economic Theory*, 2<sup>nd</sup> ed. Ann Arbor: University of Michigan Press, 2005 (ch. 1).
- T** \*Avner Greif, *Institutions and the Path to the Modern Economy*. Cambridge: Cambridge University Press, 2006 (chs. 1-2).
- R** Masahiko Aoki, *Toward a Comparative Institutional Analysis*. Cambridge, Mass.: MIT Press, 2001 (ch. 1).
- S** \*Peter Hedström and Richard Swedberg, “Social Mechanisms: An Introductory Essay,” in Hedström and Swedberg, *Social Mechanisms: An Analytical Approach to Social Theory*, pp. 1-31. Cambridge: Cambridge University Press, 1998.
- R** Freud, Sigmund, *Civilization and Its Discontents*, trans. James Strachey (New York: Norton, 1961; orig. German ed., 1930).

## II. INSTITUTIONAL DYNAMICS (Classes 1-2)

### A. Endogenous Institutional Change

- R** Douglass North, *Understanding the Process of Economic Change* (chs. 7-8).
- R** \* Jean-Philippe Platteau, *Institutions, Social Norms, and Economic Development*. Amsterdam: Harwood, 2000 (pp. 243-68).
- T** \* Avner Greif, *Institutions and the Path to the Modern Economy*. (chs. 3+9, 6-7).
- S** Jeremy Edwards and Sheilagh Ogilvie, “Contract Enforcement, Institutions and Social Capital: The Maghribi Traders Reappraised.” *Economic History Review*, 65 (2012): 421-44.
- S** Avner Greif, “The Maghribi Traders: A Reappraisal.” *Economic History Review*, 65 (2012): 445-69.
- S** Jessica Goldberg, “Choosing and Enforcing Business Relationships in the Eleventh-Century Mediterranean: Reassessing the ‘Maghribī Traders’.” *Past and Present*, 216 (2012): 3-40.
- R** Deepak Lal. *Unintended Consequences: The Impact of Factor Endowments, Culture, and Politics on Long-Run Economic Performance*. Cambridge, Mass.: MIT Press, 1998 (esp. chs. 8-9).
- R** Masahiko Aoki, *Toward a Comparative Institutional Analysis* (ch. 4).

## **B. Development of Organizational Capacity: Enterprise Size and Longevity (Class 2)**

- S** \* Henry Hansmann, Reinier Kraakman, and Richard Squire, “Law and the Rise of the Firm.” *Harvard Law Review*, 119 (2006): 1335-56 (1356-1403 optional).
- S** \* Naomi Lamoreaux and Jean-Laurent Rosenthal, “Legal Regime and Contractual Flexibility: A Comparison of Business’s Organizational Choices in France and the United States during the Era of Industrialization.” *American Law and Economics Review*, 7 (2005): 28-61.
- S** Paul R. Milgrom, Douglass C. North, and Barry Weingast, “The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Fairs.” *Economics and Politics*, 2 (1990): 1-23.
- T** \* Timur Kuran, *The Long Divergence: How Islamic Law Held Back the Middle East*. Princeton: Princeton University Press, 2011 (chs. 3-5).

## **C. Development of Organizational Capacity: Political Consequences (Class 3)**

- T** \* Timur Kuran, *Long Divergence* (chs. 6-8).
- S** \*Tine De Moor, “The Silent Revolution: A New Perspective on the Emergence of Commons, Guilds, and Other Forms of Corporate Collective Action in Western Europe.” *International Review of Social History*, 53 suppl. (2008): 179-212.
- S** Maarten Bosker, Eltjo Buringh, and Jan Luiten van Zanden, “From Baghdad to London: Unraveling Urban Development in Europe, the Middle East, and North Africa, 800-1800.” *Review of Economics and Statistics*, 95 (2013): 1418-37.
- S** David Stasavage, “Was Weber Right? The Role of Urban Autonomy in Europe’s Rise.” working paper, New York University (June 2013).
- S** Henrich Greve and Hayagreeva Rao, “Echoes of the Past: Organizational Foundings as Sources of an Institutional Legacy of Mutualism.” *American Journal of Sociology*, 118 (2012): 635-75.
- S** \* Timur Kuran, “Legal Roots of Authoritarian Rule in the Middle East: Civic Legacies of the Islamic Waqf.” *American Journal of Comparative Law*, 64 (2016), in press.

## **D. Development of Organizational Capacity: Group Differences (Class 4)**

- T** \* Timur Kuran, *Long Divergence* (chs. 9-12).
- S** \* Timur Kuran and Anantdeep Singh. “Economic Modernization in Late British India: Hindu-Muslim Differences.” *Economic Development and Cultural Change*, 61 (2013): 503-38.
- S** \* Timur Kuran and Scott Lustig, “Judicial Biases in Ottoman Istanbul: Islamic Justice and Its Compatibility with Modern Life.” *Journal of Law and Economics*, 55 (2012): 631-66.
- S** Daniel Klorman, “The Emergence of English Commercial Law: Analysis Inspired by the Ottoman Experience.” *Journal of Economic Behavior and Organization*, 71 (2009): 638-46.

## **E. The Rule of Law: Distributional Consequences (Class 5)**

- R\*** Douglass C. North, John Joseph Wallis, and Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. Cambridge: Cambridge University Press, 2009 (chaps. 1-4).
- S** \*Douglass C. North, and Barry R. Weingast. “Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England.” *Journal of Economic History*, 49 (1989): 803-32.
- \* **S** Timur Kuran and Jared Rubin, “The Financial Power of the Powerless: Socio-Economic Status and Interest Rates under Partial Rule of Law” (December 2015).
- S** Mark A. Bliss and Ferdinand A. Gul. “Political Connection and Cost of Debt: Some Malaysian Evidence.” *Journal of Banking & Finance*, 36 (2012): 1520-27.
- S** Farrukh Iqbal, “The Determinants of Moneylender Interest Rates: Evidence from Rural India.” *Journal of Development Studies*, 24 (1988): 364-78.
- R** James Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed*. New Haven: Yale University Press, 1998 (esp. chaps. 6-8).
- T** \* Daron Acemoglu and James A. Robinson, *Economic Origins of Dictatorship and Democracy*. Cambridge: Cambridge University Press, 2006 (chs. 1-5).

## **F. Legal and Colonial Origins of Economic Development (Class 6)**

- S** \*Daron Acemoglu, Simon Johnson, and James A. Robinson, “The Colonial Origins of Comparative Development: An Empirical Investigation.” *American Economic Review*, 91 (2001): 1369-1401.
- S** Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, “Law and Finance.” *Journal of Political Economy*, 106 (1998): 1113-55.
- S** Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, “Legal Determinants of External Finance.” *Journal of Finance*, 52 (1997): 1131-50.
- R** \* Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown Business, 2012), chaps. 1-9.
- S** Daniel M. Klerman, Paul G. Mahoney, Holger Spamann, and Mark Weinstein, “Legal Origin or Colonial History?” *Journal of Legal Analysis*, 3 (2011): 379-409.

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| MIDTERM: March 2, 2016, in class |
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## **G. Cascades and Latent Change: Informational and Reputational Cascades (Class 8)**

- R** Thomas C. Schelling, *Micromotives and Macrobehavior*. New York: Norton, 1978 (chs. 7).
- S** \* Sushil Bikchandani, David Hirshleifer, and Ivo Welsh. "A Theory of Fads, Fashion, Custom, and Cultural Change as Informational Cascades." *Journal of Political Economy*, 100 (1992): 992-1026.
- T** \* Timur Kuran, *Private Truths, Public Lies: The Social Consequences of Preference Falsification*. Cambridge, Mass.: Harvard University Press, 1995 (chs. 1-5, 7, 16-17).
- S** \* Timur Kuran, "Sparks and Prairie Fires: A Theory of Unanticipated Political Revolution," *Public Choice*, 61 (1989): 41-74.
- S** C. C. Yin, "Equilibria of Collective Action in Different Distributions of Protest Thresholds," *Public Choice*, 97 (1998): 535-567.
- S** Simon Lindgren, "The Potential Limitations of Twitter Activism: Mapping the 2011 Libyan Uprising," *TripleC* 11 (2013): 207-20.

## **H. Cascades and Latent Change: Availability and Coordination Cascades (Class 9)**

- S** \* Timur Kuran and Cass R. Sunstein. "Availability Cascades and Risk Regulation." *Stanford Law Review*, 51 (1999): 683-768 (esp. pp. 683-98 and 703-46).
- R** Christophe Chamley, *Rational Herds: Economic Models of Social Learning*. Cambridge: Cambridge University Press, 2004 (ch. 4).
- S** \* Brian W. Arthur, "Competing Technologies, Increasing Returns, and Lock-In by Historical Events." In his *Increasing Returns and Path Dependence in the Economy*, pp. 13-32. Ann Arbor: University of Michigan Press, 1994.
- S** Gillette, Clayton P. "Lock-in Effects in Law and Norms." *Boston University Law Review*, 78 (1998): 813-842.

## **III. THE FUNCTIONS OF INSTITUTIONS**

### **A. Coping with Cognitive Limitations (Class 10)**

- R** \* Cass Sunstein and Richard H. Thaler, *Nudge: Improving Decisions about Health, Wealth, and Happiness*. New Haven: Yale University Press, 2008 (chs. 1-2, 4-5).
- S** \* Richard Thaler and Shlomo Benartzi. "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy*, 112 (2004): S164-S187.
- R** Bryan Caplan. *The Myth of the Rational Voter: Why Democracies Choose Bad Policies*. Princeton: Princeton University Press, 2007 (chs. 2-4).
- S** \* Jenna Bednar, Yan Chen, Tracy Xiao Liu, and Scott Page, "Behavioral Spillovers and Cognitive Load in Multiple Games: An Experimental Study," *Games and Economic Behavior*, 74 (2012) 12-31.

## **B. Private and Communal Provision of Collective Goods (Class 11)**

- S** Ronald H. Coase, "The Lighthouse in Economics." *Journal of Law and Economics*, 17 (1974): 357-76.
- R** Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press, 1990 (esp. chs. 1-2).
- T** \*Robert Ellickson, *Order without Law: How Neighbors Settle Disputes*. Cambridge, Mass.: Harvard University Press, 1991 (chs. 7-14).
- S** \*Robert Ellickson, "Property in Land." *Yale Law Journal*, 102 (1993): 1315-43 +1362-74 (rest recommended).

## **C. Redistribution (Class 12)**

- R** \* Jean-Philippe Platteau, *Institutions, Social Norms, and Economic Development*. Amsterdam: Harwood, 2000 (chaps. 4-5; rest of book recommended).
- R** Robert Edgerton, *Sick Societies: Challenging the Myth of Primitive Harmony*. New York: Free Press, 1992 (esp. chs. 7-8).
- S** Erica Field, Seema Jayachandran, and Rohini Pande. "Do Traditional Institutions Constrain Female Entrepreneurship? A Field Experiment on Business Training in India." *American Economic Review*, 100 (2010): 125-29.
- T** \* Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton: Princeton University Press, 2007, (chaps. 1-3, 4-6).

## **D. Rent Setting and Rent Seeking (Class 13)**

- R** James M. Buchanan, "Rent Seeking and Profit Seeking," in James M. Buchanan, Robert D. Tollison and Gordon Tullock (eds.), *Toward a Theory of the Rent Seeking Society*, pp. 3-15. College Station: Texas A&M University Press, 1980.
- R** Hernando De Soto, *The Other Path: The Invisible Revolution in the Third World*. New York: Harper & Row, 1989 (chs. 1, 3, 5, and 6).
- T** \* Andrei Shleifer and Robert W. Vishny. *The Grabbing Hand: Government Pathologies and Their Cures*. Cambridge, Mass.: Harvard University Press, 1998 (chs. 1-6, 11).
- R** William Easterly, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. Cambridge, Mass.: MIT Press, 2001. (chs. 3, 11-12)
- S** \*Lawrence Rosen, "Understanding Corruption." *American Interest* (March/April 2010): 78-82.
- R** Robert B. Ekelund and Robert D. Tollison. *Politicized Economies: Monarchy, Monopoly, and Mercantilism*. College Station: Texas A&M University Press, 1997 (chs. 1-3, 6, 8).
- R** Avinash Dixit, *Lawlessness and Economics: Alternative Modes of Governance*. Princeton: Princeton University Press, 2004 (chs. 1-2).

FINAL: Monday, May 2, 2016 (7-10 pm), in class

## ***Guidelines for Term Paper***

The purpose of the paper should be to study, drawing on concepts and methodologies introduced early in the course, an institutional problem that has empirical content. The paper must be focused, which is to say that you must find a topic that can be analyzed in some depth within the confines of the word limit given. Lengthier papers will not be accepted, for it is important to learn how to get an argument across concisely. References are not included in the word count.

### **Schedule**

March 4 (Friday), 11 PM: Post on Sakai your chosen topic, accompanied by a preliminary outline and bibliography. This report should run from 300 to 600 words and should be submitted in word format.

By March 7: I will contact each student individually re. the suitability of his/her topic, with suggestions for improvement.

Rest of March, early April: Schedule *at least one* meeting with me to discuss progress on your paper. You are welcome, of course, to come by more often, and you may ask for an appointment if my office hours conflict with your course schedule.

April 25 (Monday), 11 PM: Post on Sakai final paper in word format. Please include word count, exclusive of tables and references. Remember that the text is to run between 4000 and 5500 words. Place a print copy in my Economics Department mailbox by the end of the next day.

### **Grading**

The paper will be graded on a numerical 0-30 scale for substance, originality, organization, clarity, documentation, and quality of sources. 1 point will be deducted for late submissions, except in documented cases of serious illness or family catastrophe. (The due date will be reset every 48 hours, with another point deducted for each missed deadline.)

### **Sources**

The paper must be based on scholarly publications, including books, journal articles, and statistical sources. Newspaper and magazine articles are generally unreliable, so do not use them without first checking with me.

### **Style**

Regarding stylistic issues (e.g. placement of footnotes, bibliography, quotations), consult Kate Turabian's *Manual for Term-Paper Writers*, available at the bookstore. Give credit whenever you borrow an idea from another author; and if you borrow a sentence or phrase, be sure to place it in quotes. All statistical sources must be documented clearly.