

**EMLE 2017: Course Outline for *Law and Economics of Development*  
Indira Gandhi Institute of Development Research (IGIDR), Mumbai, India**

***Part I (Vikas Kumar)***

Course outline along with the readings are in a separate file, to be sent to you along with the readings either through email or Google drive.

Lecture Schedule: 2017 April 10, 12, 13, 17, 24, 25

Time Slot: 9.30 to 11 a.m. sharp

Lecture Room: SEANZA Hall a.k.a. Conference Hall

***Part II (P.G. Babu)***

Overview: Lives of Poor, Vicious cycle of Poverty, Classical ideas such as Balanced and Unbalanced Growth, Nurkse equilibrium, Solow Growth Model, Arthur Lewis Model, Harris-Todaro Model of Migration, and Stiglitz labor turnover model.

Child labor, Sexual harassment and Free Contract, Role of Property Rights in Economic Development: Basic model, optimal assignment of property rights, state capacity and property rights; Focal point approach to Law in Developing Countries: Coordination and Information.

Politics, Law and Land Reform: Centralized and Decentralized allocation mechanisms, Idea of Political-Economic equilibrium, single peaked preferences, median voter theorem, Downsian policy convergence, application to land reforms.

Lecture Schedule: 2017 April 21, April 26, April 28, May 3, May 5, May 8

Time Slot: 9.30 sharp to 11 a.m. sharp

Lecture Room: SEANZA Hall a.k.a. Conference Hall

Readings will be forwarded along with the lecture notes.

## EMLE 2017: Course Outline for *Law and Development*

### **Preliminary readings**

Arndt, H. W. (1981), "Economic Development: A Semantic History," *Economic Development and Cultural Change*, 29: 3, pp. 457-466

Clark, David (2006), "Capability Approach," in David Clark Ed, *The Elgar Companion to Development Studies*

Kiely, Ray (2006), "Modernisation Theory," in David Clark Ed, *The Elgar Companion to Development Studies*

Note: I hope you will flip through these papers before the first lecture. These papers will provide all of us a common point of departure. If you disagree with the arguments, claims, etc in one or more of these papers, we will discuss your concerns before we begin the first lecture.

### **Lecture 1: Introduction**

Posner, Richard A. (1987), 'The Law and Economics Movement', *American Economic Review*, 77 (2), 1-13

Posner, Richard A. (1998), 'Creating a Legal Framework for Economic Development', *World Bank Research Observer*, 13, pp. 1-11

Carothers, Thomas (1998), 'The Rule of Law Revival', *Foreign Affairs*, pp. 95-106.

Sen, Amartya (2000), "What is the Role of Legal and Judicial Reform in the Development Process?" *The World Bank Legal Review*

Dam, Kenneth W. (2006), *The law-growth nexus : the rule of law and economic development* (Chap 1: "Where Does the Rule of Law Fit in Economic Development?" pp. 13-15)

Trubek, David M. and Alvaro Santos (2008), 'Introduction: The Third Moment in Law and Development Theory and the Emergence of a New Critical Practice,' in *The New Law and Economic Development: A Critical Appraisal*, pp. 1-18.

Davis, Kevin E. and Michael Trebilcock (1999), 'What Role do Legal Institutions Play in Development?,' pp. 10-32

Davis, Kevin E. and Michael Trebilcock (2008), 'The Relationship between Law and Development: Optimists Versus Skeptics', *The American Journal of Comparative Law*. pp. 895-946

### **Lecture 2: Finance and Economic Growth**

Levine, Ross (1997), 'Financial Development and Economic Growth: Views and Agenda', *Journal of Economic Literature*, 35: 2, pp. 688-726.

Optional reading: Obstfeld, Maurice (2009), "International Finance and Growth in Developing Countries: What Have We Learned?" *NBER Working Paper Series*, Working Paper 14691

### **Lecture 2 - 3: Law, Finance, and Economic Growth**

Levine, Ross (1999), 'Law, Finance, and Economic Growth', *Journal of Financial Intermediation* 8, pp. 8–35.

La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (2008), 'The economic consequences of legal origins', *Journal of Economic Literature* 46, pp. 285-322.

Xu, Guangdong (2011), 'The Role of Law in Economic Growth: A Literature Review,' *Journal of Economic Surveys* 25:5, pp. 833–871.

Dam, Kenneth W. (2006), *The law-growth nexus: the rule of law and economic development* (Chap 3: "Competing Explanations," pp. 56-69.)

Maggio, Giuseppe, Alessandro Romano and Angela Troisi (2014), 'The Legal Origin of Income Inequality,' *The Law and Development Review* 7:1, pp. 1–21.

#### **Lecture 4: Long run/Multi-country studies**

Daniel M. Klerman, Paul G. Mahoney, Holger Spamann, and Mark I. Weinstein (2011), 'Legal Origin or Colonial History?' *Journal of Legal Analysis*, Volume 3, Number 2, pp. 379-409.

Mark Roe and Jordon Siegal (2009), 'Finance and Politics: A Review Essay Based on Kenneth Dam's Analysis of Legal Traditions in The Law-Growth Nexus', *Journal of Economic Literature*, Vol. 47, No. 3, pp. 781-800.

Daniel Berkowitz, Katharina Pistor and Jean-Francois Richard (2003), 'The Transplant Effect', *American Journal of Comparative Law*, 51, 163-203

Timur Kuran (2003), 'The Islamic Commercial Crisis: Institutional Roots of Economic Underdevelopment in the Middle East', *Journal of Economic History*, Vol. 63, No. 2, pp. 414-446<sup>1</sup>

Optional reading: Hans-Bernd Schäfer and Alexander J. Wulf (2013), "Jurists, Clerics and Merchants: The Rise of Learned Law in Medieval Europe and its Impact on Economic Growth," *Manuscript*

#### **Lecture 5: Country/regional case studies**

Note: Asterisk identifies the papers/chapters that will be discussed in the class. You can choose one of the readings from the rest of this section for your in-class presentation.

\* North East Asia: Ohnesorge, John K. M. (1999), "The Rule of Law, Economic Development and the Developmental States of Northeast Asia," in Christoph Antons (Ed.), *Law and Development in East and Southeast Asia*, pp. 91-130, New York: RoutledgeCurzon

\* East Asia: Tom Ginsburg, (2000) "Does Law Matter for Economic Development? Evidence from East Asia," *Law and Society Review*.

\* East Europe: Rapaczynski, Andrzej (1996), 'The Roles of the State and the Market in Establishing Property Rights', *Journal of Economic Perspectives*, 10, pp. 87–103

\* India: Armour, John and Priya Lele (2009), 'Law, Finance, and Politics: The Case of India', *Law & Society Review*, Vol. 43, No. 3, pp. 491-526

China: Allen, Franklin, Jun Qian, Meijun Qian (2005), 'Law, finance, and economic growth in China', *Journal of Financial Economics* 77, pp. 57–116

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<sup>1</sup> *Related readings*: Kuran, Timur (1997), "Islam and Underdevelopment: An Old Puzzle Revisited," *Journal of institutional and theoretical economics*, 153:1, pp. 41-71 / Kuran, Timur (2004), "The Economic Ascent of the Middle East's Religious Minorities: The Role of Islamic Legal Pluralism," *Journal of Legal Studies*, 33:2, pp. 475-515 / Gheeraert, L. and L. Weill (2015), "Does Islamic Banking Development Favor Macroeconomic Efficiency? Evidence on the Islamic Finance-Growth Nexus," *Economic Modelling* 47, pp. 32-39 / Goldstone, Jack A. (2012), "Is Islam Bad for Business?" *Perspectives on Politics*, 10:1, pp. 97-117.

Japan: Upham, Frank (2002), "Mythmaking in the Rule of Law Orthodoxy," *Carnegie Endowment Working Papers*

Singapore: Harding, Andrew and Connie Carter (2003), "The Singapore Model of Law and Development: Cutting Through the Complexity," in John Hatchard and Amanda Perry-Kessaris (eds.), *Law and development: Facing complexity in the 21st century*, pp. 191-206

Russia: Hendley, Kathryn (1999), "Rewriting the Rules of the Game in Russia: The Neglected Issue of the Demand for Law," *East European Constitutional Review*, 8:4, pp. 89-95

Italy: Bandiera, Oriana (2003), 'Land Reform, the Market for Protection, and the Origins of the Sicilian Mafia: Theory and Evidence', *Journal of Law, Economics, and Organization*, 19, pp. 218-244.

Somalia: Leeson, Peter T. and Claudia R. Williamson. 2009. 'Anarchy and Development: An Application of the Theory of Second Best', *The Law and Development Review*, Volume 2, Issue 1, Article 4.

### **Lecture 6: Law and Society<sup>2</sup>**

Cohen, Amy (2009), 'Thinking with Culture in Law and Development', *Buffalo Law Review*, 57, 511-586

Brian, Tamanaha (2011), 'The Primacy of Society and the Failures of Law and Development', *Cornell International Law Journal*, 44, 209-247

Root, Hilton L. (2013), *Dynamics among Nations: The Evolution of Legitimacy and Development in Modern States*. MIT Press: Cambridge, MA. (selections)

### **Assessment**

- (a) Review essay (1000 words): review of a paper or book chapter that is part of the reading list (see entries under Lectures 2-6), including optional/related readings. If you want to review something that is going to be discussed in Lecture N, then you have to email me your review before that lecture starts. (15 per cent)
- (b) Group presentation: Form groups of two and present a paper from those listed under Lecture 5 (excluding the papers marked with an asterisk). The paper you review and the one that you present should be different. (15 per cent)
- (c) In-class assignment: A short quiz at the end of Lecture 3 or 4. (10 per cent)
- (d) End-semester examination (60 per cent)

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#### <sup>2</sup> Optional readings

*Africa*: Ensminger, Jean (1997), "Transaction Costs and Islam: Explaining Conversion in Africa," *Journal of Institutional and Theoretical Economics*, 153 (1), pp. 4-29

*Central America*: Goldin, Liliانا R. and Brent Metz (1991), "An Expression of Cultural Change: Invisible Converts to Protestantism among Highland Guatemala Mayas," *Ethnology*, Vol. 30, No. 4, pp. 325-338

*Soviet Bloc*: Kuran, Timur (1991), 'The East European Revolution of 1989: Is it Surprising that We Were Surprised?', *American Economic Review*, 81 (2), 121-125

*India*: Eaton, Richard M. (1984), "Conversion to Christianity among the Nagas, 1876-1971." *Indian Economic Social History Review*, 21:1, pp. 1-44.

*India*: Kranton and Swamy (1999), "The Hazards of Piecemeal Reform: British Civil Courts and the Credit Market in Colonial India," *Journal of Development Economics*, 58 (1), pp. 1-24.

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## **LAW AND ECONOMICS OF INSTITUTIONS**

**EMLE Third Term: April – June 2017**

**Indira Gandhi Institute of Development Research, Mumbai, INDIA**

### **Course Description**

Economists have become increasingly aware of the importance of institutions in influencing economic and social development. This course is designed to provide a broad overview of the different theoretical perspectives that have developed over the years to study the emergence and functions of institutions, with special emphasis placed on law as an institution. The course will expose the student to the fundamental theoretical perspectives of institutional economics. These include the logic of collective action, the emergence and role of property rights, rent-seeking and pressure groups, transaction cost economics and organization theory, and the emergence of social norms and conventions in the shadow of the law. Insights gained in the course will be helpful in understanding the role of institutions in development, and in analysing the process of economic change.

### **Course Requirement**

The reading list for the course is divided for each topic into required readings (R), and supplementary (S) readings. The core readings will be usually covered in class. Students are strongly recommended to at least scan the supplementary readings for a deeper understanding of the subject. The final exam will be based only on class lectures and the required readings.

Course grade will be based on a final exam.

### **Course Policies**

Attendance requirements as per EMLE rules.

Academic dishonesty in any form will be penalized according to EMLE rules.

## Course Outline and Readings

### I. WHY INSTITUTIONS MATTER

- R: Mancur Olson, Jr. (1996). Distinguished Lecture on “Economics in Government: Big Bills Left on the Sidewalk: Why Some Nations Are Rich, and Others Poor,” *Journal-of-Economic-Perspectives* 10(2), Spring 1996, pages 3-24.  
<http://www.jstor.org/stable/2138479>
- R: Douglas C. North (1990), *Institutions, institutional change and economic performance*, Cambridge: Cambridge University Press, ch. 1.
- R: Gerald W. Scully (1997), “Rule and policy spaces and economic progress: Lessons for Third World countries,” *Public Choice*, vol. 90, no. 1, pp. 311-324. (The main arguments and conclusions)  
<http://www.jstor.org/stable/30024194>
- R: D. Acemoglu, S. Johnson & J. Robinson. Institutions as the Fundamental Cause of Long-Run Growth. Published in Handbook of Economic Growth, Elsevier, North Holland, 2005. Section 1.  
[http://www.nber.org/papers/w10481.pdf?new\\_window=1](http://www.nber.org/papers/w10481.pdf?new_window=1)
- R: Hernando de Soto (2001), “The mystery of capital,” *Finance and Development*, Volume 38, Number 1. <http://www.imf.org/external/pubs/ft/fandd/2001/03/desoto.htm>
- R: Haggard, Stephan and Lydia Tiede (2011). “The Rule of Law and Economic Growth: Where are We?,” *World Development* Vol. 39, No. 5, Sections 1-3.

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- S: Galiani, Sebastian and Ernesto Schargrodsky (2010), "Property Rights for the Poor: The Effects of Land Titling," *Journal of Public Economics* 94 (9): 700-729.
- S: Rafael La Porta, Florencio Lo´pez-de-Silanes, Cristian Pop-Eleches, Andrei Shleifer (2004), Judicial Checks and Balances, *Journal of Political Economy*, 2004, vol. 112, no. 2  
<http://www.nber.org/papers/w9775>
- S: Roy, Tirthankar (2012), “Empire, Law and Economic Growth,” *Economic and Political Weekly*, Vol. XLVII No. 08, February 25, 2012.

### II. THE ECONOMICS OF INSTITUTIONS

- R: Ronald Coase (1998), “The new institutional economics,” *The American Economic Review*, Vol. 88, No.2, pp. 72-74. <http://www.jstor.org/stable/116895>
- R: Douglas C. North (1990), *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press, 1991, ch 2 .

- R: Herbert Simon (1970), “From substantive rationality to procedural rationality,” in *Philosophy and Economic Theory* (F. Hahn and M. Hollis, eds.), New York: Oxford University Press, pp.65-86.
- R: Geoffrey Hodgson (1993), “Institutional economics: surveying the “Old” and the “New,”” *Metroeconomica*, 44 (1), reprinted in Geoffrey Hodgson (ed.) *The Economics of Institutions..* Elgar Reference Collection, Aldershot, U.K.: Elgar, pp. 50-80.
- R: Oliver Williamson (2000), “The new institutional economics: Taking stock, looking ahead,” *Journal of Economic Literature*, Vol. XXXVIII, pp. 595-613. (Sections 1 & 2 : pages 595-600) <http://www.jstor.org/stable/2565421>

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- S: Richard A. Posner (1993), “The New Institutional Economics Meets Law and Economics,” *Journal of Institutional and Theoretical Economics (JITE)*\_Vol. 149, No. 1, The New Institutional Economics Recent Progress; Expanding Frontiers, pp.73-87. <https://www.jstor.org/stable/pdf/40751582.pdf?refreqid=excelsior:ad6b677c4519bce6f9f5d641975d25d>

### III. HOW INSTITUTIONS MATTER

#### III A. Collective Action and the Elimination of the Free-Rider Problem

- R: Mancur Olson (1971), *The logic of collective action*, Cambridge: Harvard University Press, ch. 1.
- R: Todd Sandler (1992), *Collective action: theory and applications*, Ann Arbor: University of Michigan Press, Chapter 1 (pages 1-18), Chapter 2 (Section 2.3 – pages 35-44; Section 2.4 – pages 54-58; Section 2.5 – pages 58-62).
- R: Elinor Ostrom (1990). *Governing the commons: the evolution of institutions for collective action*, Cambridge: Cambridge University Press, chs. 1&2

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- S: Agrawal, Arun (2000), “Small is Beautiful, but is Larger Better? Forest Management Institutions in the Kumaon Himalaya, India,” in Clark C. Gibson et al. (ed.) *People and Forests: Communities, Institutions and Governance*, Cambridge: The MIT Press.

#### III B. Rent Seeking, Interest Groups and Policy Formulation

- R: Robert D. Tollison (1982). “Rent Seeking: A Survey,” *Kyklos*, Vol. 35, reprinted in Robert D. Tollison and Roger D. Congleton (ed.) *Economic Analysis of Rent Seeking*, International Library of Critical Writings in Economics, An Elgar Reference Collection, Edward Elgar.
- R: William M. Landes and Richard A. Posner (1975). “The independent judiciary in an interest group perspective,” *Journal of Law and Economics*, XVIII (3), 875-901. Reprinted in Richard A. Posner and Francesco Parisi (ed.), *Law and Economics*, Vol. 3, Cheltenham, UK: An Elgar Reference Collection. (Pages 875-888)

<http://www.jstor.org/stable/725070>

- R: Simeon Djankov et al. (2002), The Regulation of Entry, *The Quarterly Journal of Economics*, Vol. CXVII, Issue 1, pp. 1-37 (The main arguments and conclusions)  
<http://www.mitpressjournals.org/doi/abs/10.1162/003355302753399436>.

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- S: Fisman, Raymond (2001), "Estimating the Value of Political Connections," *AER*, September, 2001. <http://www.jstor.org/stable/2677829>

### III C. Reduction of Transaction Costs: Markets and Economic Organization

- R: Ronald H. Coase (1937), "The nature of the firm," reprinted in Oliver Williamson and Scott Masten eds., *Transaction Cost Economics*, Elgar, 1995.  
<http://www.jstor.org/stable/2626876>
- R: Oliver Williamson (1983), *Markets and hierarchies: analysis and antitrust implications*, New York: The Free Press, chs. 2 & 3.
- R: Yoram Barzel, "Measurement Costs and the Organization of Markets," *Journal of Law and Economics* 25(1): 27-48 (April 1982).  
<http://www.jstor.org/stable/725223>

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- S: Douglas C. North (1990), *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press, 1991, chs. 4, 7 and 8.

### III D. Coordination and Protection of Expectations: The Role of Norms and Conventions

- R: Edna Ulmann-Margalit (1981). *The emergence of norms*, chapters 1 and 2
- R: Geoffrey Brennan and James Buchanan (1988), *The reason of rules: constitutional political economy*. Cambridge University Press, chapter 1.
- R: Ellickson, Robert C., "Law and Economics Discovers Social Norms" (1998). Faculty Scholarship Series. Paper 407. [http://digitalcommons.law.yale.edu/fss\\_papers/407](http://digitalcommons.law.yale.edu/fss_papers/407)

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- S: Bicchieri, Cristina , "Norms of Cooperation"  
[www.academia.edu/193479/Norms\\_of\\_cooperation](http://www.academia.edu/193479/Norms_of_cooperation)

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