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## **LAW AND ECONOMICS OF INSTITUTIONS**

EMLE Third Term: April – June 2020

Indira Gandhi Institute of Development Research, Mumbai, INDIA

### **Course Description**

This course is designed to expose the student to fundamental theoretical perspectives and empirical research that have developed over the years to study the emergence and functions of institutions, with special emphasis placed on law as an institution. Insights gained in the course will be helpful in understanding the role of institutions in development, and in analysing the process of economic change. The course is divided into three main sections, namely (i) why study institutions matter (ii) theoretical perspectives in institutional economics, and (iii) how institutions matter. Topics covered under these sections include how social, political and legal institutions impact economic development, bounded rationality and institutions, the function of institutions in mitigating collective action problems, rent seeking, interest groups and policy formulation, role of institutions in reduction of transaction costs and the role of rules and norms in coordinating and protecting institutions.

### **Course Requirement**

In view of the Covid 19 pandemic, the course this year will be in the form of self study with directed readings as specified in this reading list. Soft copies of all readings in this list will be provided to you.. Power point presentations of lectures that go with the readings will also be sent to you on pre-specified dates. There will be 12 such power points presentations to be covered over a span of four weeks. In these four weeks, we will meet online via Skype every Tuesday at a mutually convenient time to discuss any questions that you may have on the lecture notes and readings.

Course grade will be based on a final take home exam.

### **Course Policies**

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

## Course Outline and Readings

### I. WHY INSTITUTIONS MATTER

**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>

**Douglas C. North (1990).** *Institutions, institutional change and economic performance*, Cambridge: Cambridge University Press, **ch. 1.**

**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>

**D. Acemoglu, S. Johnson & J. Robinson (2005).** 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)

**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>

**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.

**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>

### II. THE ECONOMICS OF INSTITUTIONS

**Ronald Coase (1998).** “The new institutional economics,” *The American Economic Review*, Vol. 88, No.2, pp. 72-74. <http://www.jstor.org/stable/116895>

**Douglas C. North (1990).** *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press, 1991, **ch 3 .**

**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.**

**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>

**Malcolm Rutherford (2001).** “Institutional Economics: Then and Now,” *The Journal of Economic Perspectives*, Vol. 15, No. 3, 173-194.

<http://www.jstor.org/stable/2696562>

### III. HOW INSTITUTIONS MATTER

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

**Mancur Olson (1971).** *The logic of collective action*, Cambridge: Harvard University Press, **ch. 1**.

**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)**.

**Elinor Ostrom (1990).** *Governing the commons: the evolution of institutions for collective action*, Cambridge: Cambridge University Press, **chs. 1&2**

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

**Robert D. Tollison (2012).** “The economic theory of rent seeking,” *Public Choice*, 152:73-82.

<https://www.jstor.org/stable/pdf/41483753.pdf?refreqid=excelsior%3A1c6b146b3ce55c1ee8e7f2741b363a1>

**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. (Pages 875-888). <http://www.jstor.org/stable/725070>

**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>.

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

**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>

**Oliver Williamson (1983).** *Markets and hierarchies: analysis and antitrust implications*, New York: The Free Press, **chs. 2 & 3**.

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

**Edna Ulmann-Margalit (1981).** *The emergence of norms*, **chapters 1 and 2**

**Geoffrey Brennan and James Buchanan (1988).** *The reason of rules: constitutional political economy*. Cambridge University Press, **chapter 1**.

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