

## LAW AND ECONOMICS OF INSTITUTIONS EMLE

Third Term: April – June 2023

Indira Gandhi Institute of Development Research, Mumbai, INDIA

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 four main sections, namely (i) why study institutions matter and (ii) 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. Case studies, cross-country empirical analyses and real world examples, particularly with respect to emerging economies, will be discussed along with each theoretical topic to help the student gain a practical understanding of how institutions function to facilitate/inhibit economic development.

### 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: 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: Rafael La Porta, Florencio López-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

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.

### 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

R: 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.  
[https://www.academia.edu/3653221/Small\\_is\\_Beautiful\\_but\\_is\\_Larger\\_Better\\_Forest\\_Management\\_Institutions\\_in\\_the\\_Kumaon\\_Himalaya\\_India](https://www.academia.edu/3653221/Small_is_Beautiful_but_is_Larger_Better_Forest_Management_Institutions_in_the_Kumaon_Himalaya_India)

#### 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>.

#### 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>

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)

**Evaluation:**

Class Presentation on readings from the topics highlighted in yellow: 20%

Final Exam: 80%