

Institutional Economics

Fourth Year- Second Semester
2013

Dr. Ahmed Ghoneim
Dr. Racha Ramadan

■ Course objective

Institutional Economics focuses on the transactions in the economy and how they are coordinated, which is not costless. Institutions are created to reduce these coordination costs. Institutional Economics is concerned by the different types of institutions, how they relate to each other, how they influence behavior and ideas about central concepts such as competition and efficiency (Groenewegen et al, 2010).

In this course, we will study what do we mean by Institutions, what are their role in the economy at the macro and the micro level. We will start by a presentation of the theoretical framework; we will link the theory with the real World to show why institutions matter. Both schools of institutional economics will be presented; Old Institutional Economics (OIE) and New Institutional Economics (NIE). NIE provides a theory to study economic behavior, with relaxing some of the assumptions of the *Neoclassical theory*.

In the first part of the course we will focus on the static approach of institutions including *property rights theory, contract theory and the transaction costs theory*. While in the second part we will focus on the Political Economy and Law and Economics.

■ Outline

I. Introduction (Week 1)

- a. What is Institutional Economics?
- b. Definitions

References: Groenewegen, John, Antoon Spithoven and Annette Van den Berg (2010), "Institutional Economics: An Introduction, Palgrave Macmillan - Chapter 1

II. Theoretical Framework (Weeks 2 and 3)

- a. New Institutional Economics (NIE) versus Old Institutional Economics.
- b. Institutional Economics versus Neoclassical Economics

References: Groenewegen et al (2010)- Chapter 2

III. Static Approach to Institutions

- a. Property Rights Theory (week 4)
- b. Contract Theory (week 5)
- c. Transaction costs Theory (week 6)

References: Groenewegen et al (2010) - Chapter 3

IV. Rent Seeking Behavior, Interest Groups, Ethics and Economic Progress (Week 7)

References:

- Groenewegen et al - *Chapter 9*.
- Krueger, Anna, 1974, "The Political Economy of the Rent-Seeking Society", the *American Economic Review*, Vol. 64, No. 3 (Jun., 1974), pp. 291-303.
- Spiller, Pablo and Sanny Liao (2008), "Buy, Lobby or Sur: Interest Groups' Participation in Policy Making: A Selective Survey", in Brousseau, Eric and Jean-Michael Glachant, *New Institutional Economics: A Guidebook*, Cambridge: Cambridge University Press.
- Buchannen, James M. (1994), "The Economics of Ethics and Idleness", in James Buchannen *Ethics and Economic Progress*, Oklahoma: Oklahoma University Press.

V. Law and Economics- Competition Law (Weeks 8-9)

References:

- Cooter, Robert and Thomas Ulen (2012), "Introduction to Law and Economics", in Robert Cooter and Thomas Ulen, *Law and Economics*, Pearson, Sixth Edition.
- Parisi, Francesco (2005), "Methodological debates in law and economics: the changing contours of a discipline", in Francesco Parisi and Charles K. Rowley (editors), *The Origins of Law and Economics: Essays of Founding Fathers*, Virginia: The Locke Institute and Edward Elgar.
- Ghoneim, Ahmed Farouk (2010), "Diversity of Nations and Deviations from Market Principles: Case of Egypt", in Hiroyuki Hino (editor), *Economics of Diversity: Issues & Prospects*, Kobe Economic & Business Research Series No. 18, Kobe University.
- Harrison, Jeffery and Jules Theeuwes (2008), "The Coase Theorem", in Jeffery Harrison and Jules Theeuwes, *Law and Economics*, New York: Norton.

VI. Political Economy (Weeks 10-11)

References:

- Acemoglu, Daron and James Robinson (2008), "Paths of Economic and Political Development", in Barry R. Weingast and Donald Wittman (editors), *The Oxford Handbooks of Political Science*, Oxford: Oxford University Press.
- Bates, Robert (2011), "The Role of State in Development", in Barry R. Weingast and Donald Wittman (editors), *The Oxford Handbooks of Political Science*, Oxford: Oxford University Press.
- Austen-Smith, David (2011), "Economic Methods in Positive Political Theory", in Barry R. Weingast and Donald Wittman (editors), *The Oxford Handbooks of Political Science*, Oxford: Oxford University Press.

- North, Douglass (2011), "What is missing from Political Economy", in Barry R. Weingast and Donald Wittman (editors), *The Oxford Handbooks of Political Science*, Oxford: Oxford University Press.
- Haggard, Stefan and Robert R. Kaufman (1995), "Chapter Five: Democratic Transitions and Economic Reform", in Stefan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions*, Princeton: Princeton University Press.
- Haggard, Stefan and Robert R. Kaufman (1995), "Chapter Six: New Democracies and Economic Crisis", in Stefan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions*, Princeton: Princeton University Press.

○ Other Readings:

- Olson, Mancur (1965), *The Logic of Collective Action: Public Goods and the Theory of Groups*, Second printing by Harvard Economic Studies.
- Rodrik, Dani (2008), "Second Best Institutions" <http://www.hks.harvard.edu/fs/drodrik/Research%20papers/Second-best%20institutions%20paper.pdf>
- North, Douglass (1990), *Institutions, Institutional Change and Economic Performance*. Political Economy of Institutions and Decisions.
- Landes, David, 2003, "The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor".
- Williamson, Oliver E., 2000, "The New Institutional Economics: Taking Stock, Looking Ahead". *Journal of Economic Literature* 38: 595-613.
- إيمان الشاعر (2007)، "الاقتصاد المؤسسي الجديد مع التركيز على إمكانيات تطبيقه في مجال العمل الجماعي في قطاع الزراعة المصري"، القاهرة، شركاء التنمية للبحوث والاستشارات والتدريب.
- مصطفى كامل السيد (محرر)، 2007، "الإصلاح المؤسسي والتنمية في مصر"، القاهرة، شركاء التنمية للبحوث والاستشارات والتدريب.

■ Classes

- Monday : 9a.m. – 10:30 a.m.
- Wednesday: 10: 30 a.m. – 12 p.m.

■ Office Hours

- **Dr. Ahmed Ghoneim:** *To be mentioned later*
- **Dr. Racha Ramadan:** racha.ramadan@feeps.edu.eg

- Monday: 11a.m. -12 p.m.
- Wednesday: 12:30 p.m. – 1:30 p.m.

■ Section: Mrs. Asmaa Ezzat

■ Student Assessment:

- Assignments, attendance and participation: 10%
- Mid Term Exam: 20%
- Final Exam: 70%