Course Purpose and Format

The purpose of this course is to examine the intellectual territory that is presently described as “new institutional economics.” The course text is *Institutional Economics: Social Order and Public Policy*, by Wolfgang Kaspar and Manfred E. Streit. This text will be used mainly to provide a map of the territory, including references to that territory. The order of the course, however, will not follow the order of the text.

An alternative text that I would also recommend to you is *Institutions and Economic Theory*, by Eirik G. Furubotn and Rudolf Richter. Furubotn and Richter and Kaspar and Streit are both fine books written by eminent contributors to new institutional economics. Furubotn and Richter is pitched at a level that is suitable for graduate students, whereas Kaspar and Streit is pitched at a broader audience. Furubotn and Richter, however, follows a conventional pattern of organization, whereas Kaspar and Streit does not.

My aim in this course is to help you to become potential contributors to the literature on new institutional economics. The scholarly enterprise requires both exploration and exploitation. **Exploration** is the activity of searching and scanning, looking for promising venues for scholarly exploitation. **Exploitation** is the activity of developing and refining ideas. You will undertake both types of activity in this course. Among other things, you should cultivate the practice of developing your own references. Partly you can do this by pursuing citations in things you read. But you need also to examine unpublished material, as these provide guides to what is currently going on. Increasingly, this material is available on the internet. A good place to start in this respect is by looking at the web sites of the International Society for New Institutional Economics <www.isnie.org> and the International Joseph A. Schumpeter Society <www.wiso.uni-Augsburg.de/vwl/hanusch/iss>.

Course Grading and Related Matters

My evaluation of your performance will be based on three kinds of activity. These are (1) a set of three page or so discussions of possible research ideas or projects, (2) a 20-30 page research paper that should aspire to publication within a suitable academic journal, and (3) your classroom participation. The first two
items will each count for 40 percent of your course grade. The final item will count for 20 percent.

The course will be divided into two segments. One segment will be devoted to exploration, the other segment to exploitation. The exploration segment will occupy the first two-thirds of the semester. Each class session during this segment will have two parts. In one part I will make a presentation relevant to that unit. In the other part you will make presentations relevant to your exploration of the class topic. These presentations will be submitted to me at the end of class that day. The point of these short essays is for you to describe briefly what you think would constitute an interesting approach to a professional paper that is germane to that week's assignment.

The second segment of the course will be conducted as a research seminar where you will prepare and present a research paper that should aspire to professional publication. The final version of this paper is due no later than 1630 on 9 May. (This due date is the assigned date of the final exam, only there is no final exam for this course.) This paper should be formatted according to one of the standard professional styles followed by papers in economics journals.

In all instances, my evaluation of your work will be a compound of two judgments: one is of your mastery of the assigned material, the other is of your ability to seize and articulate promising new lines of inquiry. After all, truly outstanding work at the advanced graduate level requires both a mastery of existing scholarship and an ability to articulate potential avenues of improvement upon that scholarship. A grade of “A” means that I think you have demonstrated both capacities to a degree that I believe you could become a respected contributor to the scholarly literature, should you choose to apply yourself to this end. A grade of “B” means that I think you have demonstrated sufficient knowledge that you are generally conversant with the material, though would be able to operate only as a consumer of the literature and not as a producer. A grade of “C”, or even lower, represents a judgment that you can well infer by subtraction from the above.

**Outline for First Segment of Course**

1. **Allocations, Institutions, and Economic Theory.** The dominant theme of economics for more than a century has been that resource allocation forms the core of economics. This unit will consider an alternative formulation, whereby institutional arrangements comprise the core.

2. **Ordnungstheorie: Welfare Economics without Comparative Statics?**
One feature of the allocationist core of economics is that the material of welfare economics is developed as an exercise in comparative statics. This unit will explore the prospect for a developmental approach to welfare economics, using insights from ordnungstheorie in the process.


3. **Law and Legislation: Mengerian Themes and Demsetzian Variations.**
Both Menger and Hayek argued that acts of legislation may sometimes be necessary to overcome deficiencies of common law. This unit will explore these claims, and consider what they might imply for governance arrangements, both in general and with respect to specific instances.


4. **Markets, States, and Alternative Frameworks for Regulation.** All economic activity is regulated, only in some instances market participants generate their own regulatory apparatus while in other instances that apparatus is imposed by some external authority, normally the state. This unit explores some of the differences that might result, using some insights from R. A. Fisher’s Problem of the Lady Tasting Tea in the process.

Kaspar & Streit, pp. 70-91, 133-55, 173-204, 245-54.

5. **Lemons and Asymmetric Information: Looking under Lampposts.**
Most formulations simply assume asymmetric information and explore some of the resulting consequences, usually with respect to some model of imperfect
competition. This unit will examine how asymmetric information creates incentives for the generation of institutional arrangements, and with the emergence of those arrangements tending perhaps to neuter the asymmetries.

Kaspar & Streit, pp. 125-29.

6. **Agency, Governance, and Economic Organizations.** The paradigmatic form of economic organization is the profit-seeking firm. Actually, there are huge differences among firms in such things as their equity structures and governance arrangements. Furthermore, numerous firms are organized on some non-profit basis, and yet these firms face problems of attracting capital and appraising conduct. This unit will explore the variety of governance arrangements, giving particular attention to those that differ between profit-seeking and nonprofit firms.

Kaspar & Streit, pp. 65-67, 256-82.

7. **Municipal Corporations, Agency, and Governance.** Cities are a particular form of corporate body, and are chartered as municipal corporations. This unit will carry forward some of the considerations brought to bear on Unit #6, and will plumb the opportunities for the development of an economic analysis of municipal corporations.


8. **Federalism, Subsidiarity, and Hierarchy.** Federalism is commonly portrayed in pro-liberal terms as a means of decentralizing government authority. Yet federalism means that the same person can be taxed and regulated by two autonomous governments, in contrast to a unitary state where a person faces only a single taxing and regulating authority. This unit will investigate how the substantive conduct of federalism might depend on the particular framework of governance that is in place.


9. **The Mixed Economy as Tectonic Landscape.** State policy is typically treated as an activity that takes place on a continuous, twice-differentiable landscape. State policy thus may modify particular patterns of activity within a society, but it does not modify the underlying principles that govern human relationships. This unit explores the scope for treating society as a tectonic battleground where statecraft must invariably be implicated in the practice of soulcraft.


10. **Switzerland, Afghanistan, and Places in-between.** In his *Lectures on Jurisprudence*, Adam Smith claimed that “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things.” Smith’s three conditions for progress seem simple and straightforward. Not only is opulence easy to achieve, it is universally desired. Yet progress has not been easy and general throughout the world. This unit will consider possible approaches to giving an economically interesting account of a failure to achieve something that Smith claimed was easy (“natural”) and universally desired.

Kaspar & Streit, pp. 7-21, 204-17, 342-78, 410-48.
