

Econ 388  
Spring 2001  
Williams College

William K. Jaeger  
Office: Seeley 9  
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Hrs: MR 2:30-4

## **BEYOND MARKETS: INSTITUTIONS AND HUMAN INTERESTS**

### *I. Course Description*

The economics of institutions is concerned with the humanly devised rules of a society that structure incentives and guide and shape human interactions. In contrast to the focus of much of economics which is concerned with a single institution, the market, institutional economics seeks to understand the nature of, rationale for, and evolution of, a broad range of institutional structures. These institutions include private and common property, firms, governments, cultural norms, moral rules, and collective decision processes.

In this course we will explore the growing field of institutional economics, the influence of which is indicated by three recent Nobel prizes to institutionalists: Ronald Coase, Gary Becker, and Douglas North. The “new institutional economics” stresses the importance of integrating individual choices in a context where choice sets are affected by institutions at all levels, and including how different institutions are linked and how they evolve over time in response to problems of limited information, transaction costs, and other social coordination problems. The course will stress the implications of this dynamic, institutional perspective on individual and collective human interests, and for public policy.

### *II. Course materials*

There are four books for this course plus a small reading packet. The books are Douglas North, Institutions, Institutional Change and Economic Performance, Robert Axelrod, The Evolution of Cooperation, Kenneth Arrow, The Limits of Organization, and Amartya Sen, Development as Freedom. All are available in paperback.

### *III. Requirements*

The seminar format of this course requires that students come to class prepared to discuss the assigned materials in depth. Each student will have an opportunity to present a summary of assigned readings and lead discussions in class. There will be several short writing assignments, a midterm and a final exam. Grades will be determined with the following weights: midterm exam 25%, writing assignments 25 %, class participation 20%, final exam 30%. Unexcused absences (other than medical or family emergencies) must be made up by writing a 3 page summary and critique of the readings assigned for the missed class.

## TOPICS AND READINGS

### **1. Introduction to the course**

Herbert Simon, "Organizations and markets" *J. of Econ. Perspectives*, Spring 1991.

### **2. The firm as an institution**

R. H. Coase, The nature of the firm, *Economica*, Nov. 1937, pp 386-405.

A. Alchian and H. Demsetz, "Production, information costs, and economic organization," *American Economic Review*, 1972, pp. 777-795

### **3. Property rights**

Harold Demsetz, "Toward a theory of property rights" *American Economic Review*, vol. 57, 1967, pp. 347-359.

Barry Field, "The evolution of property rights" *Kyklos*, vol. 42, 1989, pp. 319-345.

R. Coase, "The problem of social cost" *Jour. of Law and Economics*, 1960, pp. 1-44.

Herbert Simon, "Organizations and markets" *J. of Econ. Perspectives*, Spring 1991.

### **4. The evolution of cooperation**

Robert Axelrod, The Evolution of Cooperation, 1984.

Film: Lord of the Flies

### **5. An overview of new institutional economics**

D. North, Institutions, Institutional Change and Economic Performance, Ch.1-8.

### **6. Norms, morals and social capital**

J. Elster, "Social norms and economic theory", *J. of Economic Perspectives*, Vol. 3:4, 1989, pp. 99-117.

R. Posner, "Social norms and the Law: an economic approach", *American Economic Review*, May 97, pp. 99-117.

T.M. Scanlon, "Self-anchored morality" and Kurt Baier, "Comments" pp. 210-224. In Reason, Ethics, and Society.

C. Korsgaard, "The normative question" pp. 7-16. In The Sources of Normativity.

### **7. The evolution of norms and morals.**

D. Dennett, Darwin's Dangerous Idea, Chapters 1, 2, 16, 17: pp. 17-60, 452-510.

### **8. Social status and social capital**

W. Jaeger, "Status seeking and social welfare: Is there virtue in vanity?", 11/2000.

R. Putnam, "The strange disappearance of civic America," American Prospect, 1996.

R. Putnam, Bowling Alone: the collapse and revival of American community, chapter 1.

### **9. Information and organization**

Kenneth Arrow, The Limits of Organization, 1974, Norton Press.

### **10. Institutional change, social choice, human well-being**

D. North, Institutions, Institutional Change and Economic Performance, Chapters 9 – 14.

Amartya Sen, Development as Freedom.