

**AREC 499/581**  
CRN 36937/36939

**BEYOND MARKETS: INSTITUTIONS, HUMAN INTERESTS AND PUBLIC CHOICES**

Spring Term 2004, MW 1:00-2:20, 3 credits  
Gilmore 234

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**Office hours:** M, W 4-5

**Credit hours:** 3

**Prerequisites:** EC 201

**Description & course objectives:** This course looks beyond markets to the full-range of “institutions,” or humanly devised rules or mechanisms, that structure incentives and shape human interactions and collective outcomes in society. 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. Institutions include private and common property, firms, government, cultural norms and moral rules. The growing influence of institutional economics is indicated three recent Nobel prizes for institutionalists Ronald Coase, Gary Becker, and Douglas North. The “new institutional economics” stresses integrating individual choices in their institutional context, looking at how different institutions are linked, and how they evolve in response to problems of limited information, transaction costs, and other social coordination problems.

The course also examines the criteria and procedures for social choices and promotion of the “common good.” Economists’ benefit-cost approach will be compared and contrasted with alternatives including rights-based approaches, notions of fairness, justice and freedom. Theories of public choice, voting rules Arrow’s impossibility theorem, and other paradoxes will be discussed.

The course objective is for students to gain an understanding of these ideas and concepts, to appreciate their implications for individual and societal interests, and for public policy. Contexts for these inquiries will be provided by contemporary issues such as globalization, economic development, genetically-modified foods, and natural resource sustainability.

**Assessment/evaluation:** Students will be evaluated based on a midterm exam (25%), a final exam (40%), several short-writing assignments (25%) and class participation (10%).

Students enrolled for graduate credit (AREc 581) will have additional reading and writing assignments, more demanding midterm and final exams, and will generally be held to higher standards when evaluating their exams and assignments. Students enrolled for graduate credit will be expected to develop more advanced skills in analysis, synthesis and evaluation related to public policy, institutions and public choice issues generally.

**Course materials:** There are three books for this course plus additional photocopied readings on reserve at Valley Library. The books are: Douglas North, Institutions, Institutional Change and Economic Performance; Robert Axelrod, The Evolution of Cooperation; and Daniel Hausman and Michael McPherson, Economic analysis and moral philosophy (H&M). All should be available in paperback at the OSU bookstore. The reserve “VR” number is 333.

### **Outline of topics and readings:**

1. Classical institutional economics: firms and property rights
  - 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
  - Harold Demsetz, “Toward a theory of property rights” *American Economic Review*, vol. 57, 1967, pp. 347-359.
  - R. Coase, “The problem of social cost” *Jour. of Law and Economics*, 1960, pp. 1-44.
2. New institutional economics - basics
  - D. North, “Institutions, institutional change and economic performance,” Chapters 1-8
  - Akerlof, G., The markets for lemons: quality uncertainty and the market mechanism, *Quarterly Journal of Economics*, Vol. 84(3): 488-500.
3. Common property & institutions
  - N. Dolsak and E. Ostrom, “The challenge of the commons,” Chap. 1 in *The Commons in the New Millennium: Challenges and adaptations*. Cambridge, MA: MIT Press, pp. 3-34.
  - J.M.Acheson and J.F. Brewer, “Changes in the territorial system of the Maine lobster industry,” Chapter 2 in *The Commons in the New Millennium: Challenges and adaptations*. Cambridge, MA: MIT Press, pp. 37-59.
  - Charles Wolf, jr., 1979. "A theory of non-market failure" *The Public Interest*, Spring, pp. 114-133.
4. Cooperation
  - Robert Axelrod, The Evolution of Cooperation, chapters 1-9
5. Economics, rationality and morality
  - Hausman and McPherson, chapters 1-5
  - Jaeger, W.K., “Status seeking and social welfare: Is there virtue in vanity?” Processed.
6. Welfare and consequences
  - Hausman and McPherson, chapters 6-8

7. Criteria for social choice
  - Hausman and McPherson, chapters 9-12
  - Robert M. Solow, "Sustainability: An Economist's Perspective," *Economics of the Environment: Selected Readings*, 3rd edition, Robert Dorfman and Nancy Dorfman, eds., 179-187 (W.W. Norton, 1993).
8. Topics for social choice
  - Batie, Sandra S. and David E. Ervin, Transgenic crops and the environment: missing markets and public roles, *Environment and Development Economics*, 6(2001): 435-57.
  - Bromley, Land-use policy as volitional pragmatism, *Agricultural and Resource Economics Review*, 32:1, 9-17.
  - Innes, Robert, Stephen Polasky, John Tschirhart. "Takings, Compensation and Endangered Species Protection on Private Lands. *Journal of Economic Perspectives* v12, n3 (Summer 1998): 35-52.
9. Institutional change
  - D. North, "Institutions, institutional change and economic performance," chapters 9-1
  - "Water Allocation in the Klamath Reclamation Project, 2001" chapter 1 Background.  
<http://eesc.oregonstate.edu/agcomwebfile/edmat/html/sr/sr1037/sr1037.html>
  - William K. Jaeger, "Conflict over Water in the Upper Klamath Basin and the Potential Role for Market-based Allocations." 2003, processed.
10. Institutions and economic performance
  - D. North, "Institutions, institutional change and economic performance," chapters 12-14
  - Amartya Sen, *Development as Freedom*, pp. 3-34. Random House Anchor Books.
  - The WTO in brief, 10 benefits of the WTO, 10 common misunderstandings about the WTO" [http://www.wto.org/english/thewto\\_e/whatis\\_e/whatis\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm)