

New Institutional Economics

For PhD Program Amrita School of Business (2014) Amrita Vishwa Vidyapeetham

Facilitator: Amalendu Jyotishi

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Objective of the Course:

The course aims at introducing the scholars to basic concepts of Institutional Economics and sensitise them to various problems relating to information asymmetry, property rights and transaction costs by reading and understanding seminal works in the field and bringing in cases and applications from the real world.

Learning Goal:

1. Understanding theoretical premise of New Institutional Economics in general and underlying theoretical context in the sub-areas of information asymmetry, transaction costs and property rights.
2. Contextualisation of NIE theories in real world application in Strategic Business and Management Research.
3. To develop the written skills of critical review of literature in the areas of NIE.

Course Duration:

30 Hours

Module 1: Basic Introduction to Neo Classical and Institutional Economics

Overview of schools and streams of Economics, Micro Foundation of Neo Classical Economics (Demand and supply; production function; markets), Institutional Economics as a departure from Neo-Classical and Marxian Economics, Historic development of Institutional Economics, Old and New Institutional Economics, Core issues in New Institutional Economics

Reference articles and papers:

- 1.1 Any prescribed textbook in Micro Economics (possibly Managerial Economics by Mankew)
- 1.2 Klein, G., Peter. 1999. New Institutional Economics
- 1.2 Kherallah, Mylène and Kirsten, Johann. June 2001. The New Institutional Economics: Applications For Agricultural Policy Research In Developing Countries
- 1.3 North, C., Douglass. Winter 1991. Institutions. *The Journal of Economic Perspectives, Vol. 5, No. 1. (Winter, 1991)*, pp. 97-112.
- 1.4 North, C., Douglass. The New Institutional Economics and Development.
- 1.5 North, C., Douglass. Five Propositions About Institutional Change
- 1.6 North, C., Douglass. Institutions, Organizations and Market Competition
- 1.7 Coase, Ronald. May 1998. The New Institutional Economics. *The American Economic Review*, Vol. 88, No. 2, Papers and Proceedings of the Hundred and Tenth Annual Meeting of the American Economic Association (May, 1998), pp.72-74
- 1.8 Veblen, Thorstein. 1898. Why is Economics Not an Evolutionary Science. *The Quarterly Journal Of Economics* Volume 12, 1898

Module 2: Problems of Information Asymmetry

Social vis-à-vis Individual Choices, Neo-classical Maximisation vis-à-vis Methodological Individualism, Prisoner's dilemma and Nash equilibrium, Principal-Agent Problem, Problem of Adverse Selection, Problem of Moral Hazard,

Reference articles and papers:

- 2.1 Game Theory

- 2.2 Akerlof, A., George A. Aug 1970. The Market for "Lemons": Quality Uncertainty and Market Mechanism. *The Quarterly Journal of Economics*, Vol. 84, No. 3. (Aug., 1970), pp. 488-500
- 2.3 Camerer, F., Colin, Ho, Teck-Hua & Chong, JuinKuan. November 14th 2001. Behavioral Game Theory: Thinking, Learning and Teaching
- 2.4 Turocy, L., Theodore & Stengel, Bernhard von. October 8 2001. Game Theory. *CDAM Research Report LSE-CDAM-2001-09* October 8 2001.
- 2.5 Berndt, Antje and Gupta, Anurag. November 2008. Moral Hazard and Adverse Selection in the Originate-to-Distribute Model of Bank Credit.
- 2.6 Dionne, Georges., Michaud, Pierre-Carl & Dahchour, Maki. August 26 2004. Separating Moral Hazard from Adverse Selection in Automobile Insurance: Longitudinal Evidence from France. *Working paper 04-05 Canada Research Chair in Risk Management, HEC Montréal*
- 2.7 Chassagnon, A., Chiappori, P.A. March 1997. Insurance under moral hazard and adverse selection: the case of pure competition
- 2.8 Pauly, V., Mark. The Truth about Moral Hazard and Adverse Selection
- 2.9 Osborne, J., Martin. 2002/7/23. Nash Equilibrium: Theory. Draft chapter from *An Introduction to game theory*
- 2.10 Holden, T., Richard. September 15 2008. Comparative Statics in Principal-Agent Problems
- 2.11 Miller, Nolan. 3/23/05. Notes on the Principal-Agent Problem
- 2.12 Stigler, J., George, June 1961. The Economics Of Information. *The Journal of Political Economy*, Vol. 69, No. 3 (Jun., 1961), pp. 213-225
- 2.13 Greenwald, C., Bruce & Stiglitz, E., Joseph. May 1986. Externalities in Economies with Imperfect Information and Incomplete Markets. *The Quarterly Journal Of Economics*, May 1986.
- 2.14 Stiglitz, E., Joseph. & Weiss, Andrew. June 1981. Credit Rationing in Market with Imperfect Information. *The American Economic Review*, Vol. 71, No. 3. (Jun., 1981), pp. 393-410.

Module 3: Property Rights Issues

Concepts of Property and defining Property Rights, Problems of Ill-defined Property rights, Externalities-Market failure and property rights, Issues relating to ill-defined property rights Hardin's Tragedy of Commons, Collective Action, and Assurance Problem.

Reference articles and papers:

- 3.1 Armen A. Alchian and Harold Demsetz. Dec., 1972. Production, Information Costs, and Economic Organization. *The American Economic Review*, Vol. 62, No. 5 (Dec., 1972), pp. 777-795
- 3.2 Armen A. Alchian and Harold Demsetz. Mar., 1973. The Property Right Paradigm. *The Journal of Economic History*, Vol. 33, No. 1, *The Tasks of Economic History (Mar., 1973)*, pp. 16-27

Module 4: Transaction Costs and Bounded Rationality

Issues relating to transaction costs, Social cost vis-à-vis individual costs, Identification and measurements of transaction costs, Coase Theorem, Bounded Rationality

Reference articles and papers:

- 4.1 Simon, A., Herbert. 8th December 1978. Rational Decision-Making in Business Organizations. *Nobel Memorial Lecture*
- 4.2 Coase, H., Ronald. October 1960. The Problem of Social Cost. *Journal of Law and Economics (October 1960)*
- 4.3 Jones, B., Bryan. 1999. Bounded Rationality. *Annu. Rev. Polit. Sci.* 1999. 2:297-321

Module 5: Applications of NIE

In Public Policy, Insurance Sector, Market for lemons, Social issues, Ecological and Environmental Issues

Reference articles and papers:

- 5.1 Akerlof, A., George. Aug 1970. The Market for "Lemons": Quality Uncertainty and Market Mechanism. *The Quarterly Journal of Economics*, Vol. 84, No. 3. (Aug., 1970), pp. 488-500
- 5.2 Arrow, J., Kenneth. Aug., 1950. A Difficulty in the Concept of Social Welfare. *The Journal of Political Economy*, Vol. 58, No. 4. (Aug., 1950), pp. 328-346.

- 5.3 Arrow, J., Kenneth. December 12, 1972. General Economic Equilibrium: Purpose, Analytic Techniques, Collective Choice. *Nobel Memorial Lecture*
- 5.4 Feldman, M., Allan and Serrano, Roberto. Arrow's Impossibility Theorem: Two Simple Single-Profile Versions. *Faculty Feature Article*
- 5.5 Cordato, Roy. Spring 2004. Toward An Austrian Theory Of Environmental Economics. *The Quarterly Journal Of Austrian Economics* Vol. 7, No 1 (Spring 2004)
- 5.6 Dofonsou, SikaGbègbèlègbè and Lowenberg-DeBoer, James. February 2008. Ex Ante Non-Market Valuation For Novel Product: Literature Review

Academic Misconduct:

Plagiarism is the use of another person's words without proper citation. Because the writer represents these words as his or her own, plagiarism is the academic equivalent of theft. Plagiarism will not be tolerated in this class or at University. In accordance with the University Code of Academic Misconduct, plagiarism in any form will result in an "F" for this course and possible expulsion from the University. If you have any doubt about the possibility of plagiarism in your work, see me before submitting it.

Additional References:

Kasper and Streit (1998)

Nilakanthan, S

Olson Mancur (1965), *The Logic of Collective Action*, Harvard University Press, Cambridge.

Shaw, M E. (1971). *Group Dynamics: The Psychology of Small Group Behaviour*, McGraw Hill, New York.

Evaluation

Review	25%
Seminar Presentation	25%
Final Term Paper*	50%

Expectation from this paper is of similar quality expected in a standard peer reviewed journal in terms of structure and as far as possible in terms of content.

About the Instructor:



Dr. Amalendu Jyotishi is Professor and Chairperson of PhD Program at Amrita School of Business (ASB). He has a PhD degree in Economics from Institute for Social and Economic Change, Bangalore through the Bangalore University where he worked on the ecological economic issues of swidden agricultural systems. Prior to joining ASB, he has worked in OHIO University-Christ College Academy and in Gujarat Institute of Development Research as an Assistant Professor. His research work cover a wide range of issues relating to institutional economics aspects of indigenous community, water markets, forestry, inland fisheries and livelihood issues in varied ecosystems. In recent past he has been working on the issues relating to iron smelting and deforestation, informal gold mining. He has published his research ideas in journals, book, edited volumes and working papers. Besides, he has presented several papers in International and National level seminars and has been acting as reviewer for several acclaimed journals in the areas of economics, management and other social sciences. He is one of the core research members of 'Asian Initiative on Legal Pluralism' and was elected as the coordinator of the group in the year 2012. Dr. Jyotishi has collaborated in research projects supported by organizations like Swedish International Development Agency, World Bank, International Water Management Institute, Oxfam (GB) Trust, Aga Khan Rural Support Program (India). He is also the recipient of Sir Ratan Tata Trust Fellowship through Institute for Social and Economic Change, Bangalore. Presently at ASB, he is the Chairperson of the PhD Program and Research and teaches in the area of Economics.