

Econ 490A\_ au 2017

Course: MW 8:30-10:20, SWS

Office Hours: MTW 10:30-11:20 and by appointment, Office: Savery 332

Course web page: <https://catalyst.uw.edu/workspace/thornj/44002>

## Governance and Misgovernance

The goal of this course is to investigate how institutional arrangements impact the ability of the members of a society to better their lives and to achieve rising economic welfare. We look at the efficiency of economies, the process of growth, and the resulting welfare of their people, seeking to bring the tools of economic analysis to bear in understanding how state capacity and institutional change impacts economic incentives and economic growth. Students will apply the tools of economics to the analysis of real world cases.

We analyze the impacts of economic institutions on growth and welfare using micro-economic theory. Students whose use of price theory is weak should review the underlying theory in Jeffrey Perloff's *Microeconomics* (any edition.) Applying microeconomics and simple growth models to real world cases, we ask how economic policies influence the incentives and economic behavior of individuals and firms, exploring how households and producers respond to changes in the opportunities and constraints that they face and how they interact in markets and in administrative systems. We use microeconomics as a problem-solving tool to ask questions and to set up and solve qualitative and quantitative problems. .

Most of the economic policies reviewed in these case studies were intended to achieve social stability and economic growth, rising productivity, and improved well-being. However, some governmental policies intended to provide stability hindered economic growth. Since the lessons to be learned from mistakes are clearer than stories of success, in Section 1 we follow the lead of development economists, Robert Hall and Charles Jones (1999) in "Why Do Some Countries Produce So Much More Output Per Worker Than Others?" exploring the role that institutions play in fostering innovation and technical change. Reading Daron Acemoglu, Simon Johnson, James Robinson "The Rise of Europe: Atlantic Trade, Institutional Change, Economic Growth," we look at the economic environments in which entrepreneurs in England and Western Europe could apply scientific discoveries and commercial innovations to reap the benefits of trade with the New World. On the flip side, Elsa V. Artadi and Xavier Sala-i-Martin "The Economic Tragedy of the XXth Century: Growth in Africa," seeks to identify the forces that led to absolute declines in per capita income in the Sub-Saharan African countries with their emergence from colonial rule. In many cases, the evidence of problems—war, poverty, health crises, inflation, crime, and corruption—suggest hypotheses about the determinants of good performance and the sources of poor performance.

Section 1 asks "Why are some countries rich and others poor? Do Western economists understand enough about the sources of economic growth to assist policy-makers in low-income countries? Can countries jump from poverty to modernity or are slow processes of change common in historical experience? Do institutional changes and economic changes tend to evolve together and, if so, why might economic changes and institutional changes evolve simultaneously?"

Section 2 introduces *In the Shadow of Violence* by North, Wallis, Webb, and Weingast (abbreviated as N-W.) North and Weingast identify some countries in which people live in fourteenth-century conditions, facing violence, plague, starvation, and ignorance. They survey the features that the world's poorest countries have in common: civil war, a "resource curse," lack of access to global markets, and fragile governments with growth-killing policies. These scholars use case studies to explore how governments may choose the institutions of a Limited Access Order (LAOs), based on control and allocation of economic rents as a device to avoid violent conflict and achieve social stability. Yet, they argue, Limited Access Orders often impede societies from achieving the institutional foundations of an Open Access Order that allows emergence of private property rights, economic and political competition, and checks and balances on the powers of government authorities. Hall and Jones argue that differences in capital accumulation, productivity, and output per worker are fundamentally related to differences in *social infrastructure* across countries. A social infrastructure favorable to high levels of output per worker provides an environment that supports productive activities and encourages capital accumulation, skill acquisition, invention, and technology transfer. With the strong social infrastructure of an Open Access Order, individuals capture the social returns to their actions as private returns. Social

institutions to protect the output of individual productive units from diversion are an essential component of a social infrastructure favorable to high levels of output per worker.

Sections 3, 4, and 5 apply the Hall-Jones hypothesis and North-Weingast case studies to a sample of countries with low, medium, and high per capita incomes. They ask whether the North-Weingast hypothesis of a “double balance” between development of political institutions and economic performance is supported or refuted by these cases. LAOs sometime evolve toward the doorstep conditions supporting secure property rights, rule of law, and competitive markets, called an open access order. Sometimes they do not. In section 3 we look at the contrast between North and South Korea, two governments dividing a people with a common culture, a common language, and a common geography. In section 4, we contrast two large Asian countries—China and India—to explore their different, recent growth trajectories. In section 5, we turn to high-income countries asking what public policies appear to foster economic growth and reduce poverty, exploring whether these goals are complements or substitutes. Students undertake considerable group work in the course, accessing recent data from the World Bank and IMF, choosing case studies and reporting to the class the implications of their empirical studies.

### **Course Goals:**

1. Applied Goals: The goal of the course is to survey the historical experience of a sample of developed and developing economies undergoing rapid economic change. We apply microeconomic theory and the theory of production to an understanding of the choices and constraints individuals face in changing economic environments.

Explore how economic institutions and policies that impact economic growth, productivity, and welfare and how economic performance influences formation of institutions.

Understand how individuals and firms make choices subject to market and administrative constraints.

Understand how government policies affect the allocation of resources, productivity, and growth.

Understand how prices in a market system inform the decisions about what to produce, how to produce, and who gets it.

Explore how administrative decision-makers make resource allocation decisions in the absence of market competition.

2. Problem-Solving Goals

Apply microeconomics and growth theory to an understanding of the role of institutions and policies in economic performance.

Understand how economic arrangements influence the behavior of decision-makers, focusing on incentives, constraints, and sources of uncertainty.

Understand how institutional constraints and incentives impact the economic environment faced by individuals.

Use the theory of risk to understand how individuals respond to uncertain economic outcomes.

Understand how market structure and regulatory policies influence the allocation of resources.

### **Course Requirements**

Class lectures and discussions follow the syllabus, below. Grades are based on three exams, each of which receives 25% of the weight. Two class presentations and brief quizzes account for the remaining 25%. Exams and quizzes involve both solution of economic problems relevant to the real-world cases in the readings and a brief essay, exploring how policies impact the behavior of individuals. There are frequent practice problems. Students are encouraged to do these practice problems jointly with other members of the class. You do not need to hand in practice problems, since you will have similar in-class problems sets in the exams. You will get together with other members of the class to apply your analytical tools to real world cases and present your arguments to the class.

### **Academic Integrity:**

Academic integrity is the cornerstone of the Department's rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary

warning, to academic probation, to immediate dismissal from the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course.

**Texts:**

North, Douglass, John Wallis, Steven Webb, and Barry Weingast. 2013. *In the Shadow of Violence*. New York: Cambridge University Press.

Rosser, Barkley, M. Rosser. 2004. *Comparative Economics in a Transforming World*, MIT Press.

**Optional Reference:**

Perloff, Jeffrey. *Microeconomics* (any edition). Boston: Pearson/Addison-Wesley. (All the Perloff references are optional. They are recommended for students who want to review microeconomics.)

You will update the course readings with material from sources such as:

US Department of State: *Country Background Reports* <http://www.state.gov/r/pa/ei/bgn/>

World Bank, *Doing Business* <http://www.doingbusiness.org/> and World Bank Country Reports.IMF:

Annual Country reviews (for example, for India, go to: [www.imf.org/external/country/IND/index.htm](http://www.imf.org/external/country/IND/index.htm))

United Nations Development Program, *Human Development Report*. <http://hdr.undp.org/en/>

Economist Intelligence Unit, *Country Report, Country Commerce, ViewsWire*

[http://www.eiu.com/offcampus.lib.washington.edu/site\\_info.asp?info\\_name=corporate\\_landing\\_University\\_of\\_Washington&rf=0](http://www.eiu.com/offcampus.lib.washington.edu/site_info.asp?info_name=corporate_landing_University_of_Washington&rf=0)

Student groups will present case studies in Sections 2 and 3.

**Reading List**

**Section 1a: Why are Some Countries Rich and Others Poor?**

Performance measures

“Goals” on website

Sources of economic growth; lessons from economic history

Robert Hall and Charles Jones (1999) “Why Do Some Countries Produce So Much More Output Per Worker Than Others?” *Quarterly Journal of Economics*, February, 83-116.

Daron Acemoglu, Simon Johnson, James Robinson “The Rise of Europe: Atlantic Trade, Institutional Change, Economic Growth,” *American Economic Review* June 2005.

**Section 1b: Barriers to Growth in a Limited Access Order**

Elsa V. Artadi and Xavier Sala-i-Martin “The Economic Tragedy of the XXth Century: Growth in Africa,” NBER Working Paper No. 9865 July 2003 (on web site)

**Section 2: The Evolution from Limited Access Order to Open Access Order**

Limited versus open access political and economic systems

North, et. al. Ch 1 What is a limited access order?

Fragile limited access orders; “In the Shadow of Violence”

North, Ch 2,3, or 4 (Choose one case)

North, Ch 5, 6, or 7 (Choose one case)

Mature limited access orders; can they evolve into open, competitive institutions? What are doorstep conditions?

North, Ch 8 or 9 (Choose one)

Lessons in the Shadow of Violence

North, Ch 10

**Exam 1: October 23.**

**Section 3: Governance and Misgovernance: Case Studies**

Week 5: Market and Planned Systems; Rosser Ch 2 and 3.

October 30: Rosser: Ch 4 and Ch 17; Islamic Economies, Iran

November 1: Rosser, Ch 19: North and South Korea

November 6: Rosser, Ch 15, Ch 16: India and China (Choose one.)

**Exam 2: November 8**

November 13: Rosser, Ch 10 Former Soviet Economy

November 15: Rosser, Ch 11 Transition Economies  
 November 20: Rosser, Germany  
 November 27: Rosser, Ch 18 Mexico and NAFTA  
 November 29: Rosser, Ch 7 and 8 France and Sweden (Choose one.)  
 December 4: Rosser, Ch 5 United States Economy

**Exam 3: December 6**

<b>Schedule and Readings</b>	
Week 1:	Wednesday Sept 27 Goals of Economic Systems "Goals" on web
Week 2: Oct 2 Institutional Sources of Growth Hall and Jones; Acemoglu	Artadi and Sala-i-Martin Constraints on Africa
Week 3: October 9 (no class)	North-Weingast: Limited Access Order Fragile States N-W, Ch 1, choose 2,3,or 4
Week 4: Oct 16 Basic LAO States N-W, choose Ch 5,6, or 7	From Limited to Open Access North, choose 8 or 9, Ch 10
Week 5: Oct 23	Rosser Ch 2 and 3: Market and Planned Systems
<b>Exam 1</b>	
Week 6: October 30 Rosser Ch 4: Islamic Economics	Rosser Ch19: North and South Korea
Week 7: Nov 6 Rosser Ch 15, Ch 16: India and China	<b>Exam 2</b>
Week 8: Nov 13 Rosser Ch 10 Soviet Economy	Rosser Ch 11 Transition Economies
Week 9: Nov 20 Rosser Germany	No class
Week 10: Nov 27 Rosser Ch 18: Mexico and NAFTA	Rosser Ch 7 and 8: France and Sweden
Week 11: Dec 4 Rosser Ch 5 US Economy	6-Dec <b>Exam 3</b>