

Econ 490 A_ winter 2015

Course: TTh 10:30-12:20, Lowe 105

Office Hours: TTh 3:30 -5:30, W 11:00-12:00 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 policies 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, we follow the lead of development economists, William Easterly and Paul Collier, to ask: "What are the growth killing policies and institutions that doom some countries to poverty?" 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? We read Paul Collier's "The Bottom Billion" for case studies of growth-killing policies that doom some countries to failure. Collier identifies countries in which people live in fourteenth-century conditions, facing civil war, plague, starvation, and ignorance. He surveys the features that the world's poorest countries have in common: civil war, a "resource curse," lack of access to global markets, and governments with growth-killing policies.

Section 2 introduces *In the Shadow of Violence* by North, Wallis, Webb, and Weingast. These scholars use case studies to explore how governments may choose the institutions of a Limited Access Order, 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.

Section 3 applies some of the lessons that emerge from comparing countries that are achieving high levels of per capita income and welfare with countries that appear to be caught in a low-income trap.

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 principles 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 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 it, 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 30% of the weight. There are also two short quizzes, each of which receives 5% of the weight. Exams involve both solution of economic problems relevant to the real-world cases and a brief essay, applying economic theory to policy issues raised in the readings.

I will hand out frequent practice problems. Students are encouraged to do these practice problems as homework 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 course quizzes and exams.

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:

Collier, Paul. *The Bottom Billion*. New York: Oxford University Press, 2007.

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

Optional Reference:

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

You may supplement the course readings with material from sources such as:

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

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)

World Bank, *Doing Business* <http://www.doingbusiness.org/>

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

Reading List

Section 1: 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.

“Harrod-Domar” on website

“Neo-Classical Growth” on website

“Feudalism” on web

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

Why are some countries poor?

Collier, Part I Falling behind and falling apart

Growth killing policies

Collier, Part 2 The Traps—conflict, resource curse, market access, bad governance; (Perloff Ch 2, supply-demand)

Collier, Part 3 Globalization to the rescue?

Collier Part 4 The Instrument; Aid to the rescue? (Perloff Ch 4, consumer)

HOURLY TEST 1 January 29

Bottom-up development

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

Collier, Part 5 An agenda for action (Perloff Ch 6, production)

William Easterly Ariell Reshef, “African Export Success: Surprises and Explanations” NBER Working Paper 16597, (2011)

Section 2: Barriers to Growth in a Limited Access Order

Limited versus open access political and economic systems

North, et. Al. Ch 1 What is a limited access order? (Perloff Ch 11 monopoly)

HOURLY TEST 2: February 19

Fragile limited access orders; in the shadow of violence

North, Ch 2,3, and 4 (Perloff, Ch 17 uncertainty)

Basic limited access orders; obstacles to growth and productivity

North, Ch 5, 6, or 7 (Perloff Ch 19 asymmetric information)

Mature limited access orders; can they evolve open, competitive institutions

North, Ch 8 or 9

Lessons in the Shadow of Violence

North, Ch 10 (Perloff, Ch 20, moral hazard)

Shadow of Violence Today; Russia and Ukraine

Steven Pifer "Taking Stock in Ukraine," Nov 2014 *The American Interest* www.the-american-interest.com October 28, 2014

HOURLY TEST 3: March 12

Tuesday	Thursday
6-Jan Goals of economic systems "Goals" on web	8-Jan Sources of growth "Harrod Domar", "Neo-Classical Growth" Hall and Jones "Institutions and Growth"
13-Jan Institutional Change in History "Feudalism (on web)" Acemoglu "Rise of Europe"	15-Jan Collier Part 1 Falling Behind
20-Jan Collier Part 2 Traps	22-Jan Collier Part 3 Globalization Quiz 1
27-Jan Collier Part 4 Aid to the Rescue?	29-Jan HOURLY TEST 1
3-Feb Artadi Africa Easterly African Progress	5-Feb Collier Part 5 Agenda for Action
10-Feb North Ch 1 Limited Access Order	12-Feb North Ch 2 Quiz 2
17-Feb Fragile Limited Access North Ch 3 and 4	19-Feb HOURLY TEST 2
24-Feb Basic Limited Access North Ch 5 and 6	26-Feb North Ch 7
3-Mar Mature Limited Access North Ch 8 or 9	5-Mar North Ch 10 Lessons in Shadow of Violence
10-Mar Shadow of Violence Today Russia and Ukraine	12-Mar HOURLY TEST 3