

Econ 490A\_ Spring 2016  
Course: TTh 10:30-12:20  
Office Hours:9:30-10:30 TTh 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 hinder 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 25% of the weight. There are also three homework exercises, each of which receives 8% of the weight. Exams and homework exercises involve both solution of economic problems relevant to the real-world cases in the readings and a brief essay, exploring how policy choices impact the behavior of individuals.

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:

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

Lardy, Nicholas. *Markets Over Mao*. Peterson Institute for International Relations, 2014

Jang Jin-Sung. *Dear Leader*. New York: Atria Books, 2014 (First half only.)

### 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 the incentive effects of policy regulations. 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](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/> and World Bank Country Reports.

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.

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

### Section 2: 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

Limited versus open access political and economic systems

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

(Optional Perloff Ch 11 monopoly; review 11.4 causes of monopoly)

Fragile limited access orders; in the Shadow of Violence

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

(Optional Perloff, Ch 17 uncertainty; why does institutional change increase uncertainty)

Basic limited access orders; obstacles to growth and productivity

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

#### 12-April, 2015: Homework 1; Evaluate an LAO State (one page)

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

North, Ch 8 or 9 (Choose one)

Lessons in the Shadow of Violence

North, Ch 10

(Perloff Ch 9 Competitive Model; what are the sources and consequences of competition?)

#### 19-April: Exam 1

### Section 3: China: Market versus Mao

State versus Market

Lardy Ch 1

Notes on Socialist Economy (On the class web page) How did China’s communes differ from the household responsibility system?

Reform of State Owned Enterprise

What was the role of China’s TVEs in post-1978 growth?

Lardy Ch 2

Notes on Reform in the 1980s and 1990s (On the class web page)

#### 28-April, 2015: Homework 2: Compare Chinese SOEs and Private Firms (one page)

What is the contribution of each type to China’s recent growth?

(Perloff Ch 6, firms and production, Ch 13 oligopoly)

Rise of the Private Sector

Lardy Ch3

Notes on Growth and Trade (On the class web page)

Implementing the Reform Agenda

Lardy Ch 4

Notes on Fiscal and Exchange Rate Policy, Macroeconomic Structure (On the class web page)

#### 5-May: Exam 2

## Section 4: Prospects for Reforming North Korea

North Korean History and Administration  
Jang Dear Leader Ch I-1 and I-2

North Korean Economic Performance  
Jang Ch I-3 through I-5  
Data from The Bank of Korea (on the class web page)

North Korean Economic Welfare  
Jang Ch 2-1 and 2-2

**17-May: Homework 3 Compare N Korean and S Korean Economic Performance (one page)**  
**What is the role of the informal economy in the welfare of North Korean people?**  
**How does a government retain political power in the face of poor economic performance?**

Section 5: What Should Be Done?  
Recent Developments in North Korea  
North Korea; Witness to Transformation (blogs. piie.com)

Why Are Some Countries Rich and Others Are Poor?  
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.

## 2-June Exam 3

Schedule and Readings	
Tuesday 29-Mar Goals of economic systems "Goals" on web	Thursday 31-Mar Institutional Sources of Growth Hall and Jones; Acemoglu
5-Apr Fragile States North, Ch 1, choose 2,3,or 4 Perloff Ch 11 Monopoly	7-Apr Basic LAO States North, choose Ch 5,6, or 7
12-Apr <b>Homework 1</b> <b>Evaluate a LAO State</b> Perloff Ch 9 Competitive Model	14-Apr From Limited to Open Access North, choose 8 or 9, Ch 10
19-Apr <b>Exam 1</b>	21-Apr China Lardy, Ch 1 State vs Market Notes on Socialist Economy
26-Apr Lardy Ch 2 Reform State-owned Firms Notes on Chinese Reform in 1980s and 1990	28-Apr Lardy Ch 3 Rise of Private Sector Notes on Chinese Growth and Trade

	<b>Homework 2: Compare Chinese SOE and Private Firms</b>
Perloff Ch 6 Firms and Production	Perloff Ch 7 Costs
3-May Lardy Ch 4 Reform Agenda Notes on Chinese Fiscal and Exchange Rate Policies Perloff Ch 13 Oligopoly	5-May  <b>Exam 2</b>
10-May North Korea Notes on North Korean History Perloff	12-May Jang Ch 1-1 and 1-2 N Korean Administration
17-May Jang Ch 1-3 My Hometown	19-May Jang Ch 1-4 and 1-5 Farewell
<b>Homework 3: Compare N Korean and S Korean Performance'</b>	
Perloff Ch 14 Game Theory 24-May Comparing North and South Korea Jang 1-6 Leaving	Perloff Ch 14 Game Theory Comparing North and South Korea  26-May
Jang 2-3 and 2-4	
31-May Can a developmental dictatorship evolve into an open access order?	2-June  <b>Exam 3</b>