

Course Title: Institutional and Behavioral Economics

Instructor: Anand Murugesan

ECTS: 4

Term: Winter 2020

Module: Mandatory Elective

Relation to other courses: Economic Analysis for Public Policy and Quantitative Research Methods or equivalent.

Background and Overall Aim of the Course:

Institutional economics is the study of the evolution of economic organizations, laws, customs, beliefs, and their interactions with the process of economic development. The course examines the role of history and both formal and informal institutions (culture) in the performance of economies. The course uses a microeconomic and behavioral approach to understand the feedback between individual beliefs, choices, and institutions, including a module on nudging.

The goals of this course are to (1) deepen your understanding of the role of institutions in the process of economic development, (2) provide you with empirical and conceptual apparatus for understanding the interactions between institutions and behavior (3) offer a nuanced perspective of the role of culture and the long shadow of history on socio-economic outcomes (4) introduce students to recent behavioral insights for policymaking and (5) invoke and engage your curiosity about the “why’s and wherefore’s” of the world today.

Some examples of the topics covered in the course: How did the slave trade affect mistrust, trade, and growth in Africa? Can an inherited culture of honor explain the history of violence in the US South? How does language affect economic behavior? Can nudging improve pro-social behavior?

Learning Outcomes:

Students will be able to:

- relate institutional and behavioral mechanisms for development (e.g., laws, customs and beliefs) on development
- empirically analyze the role of history on development
- widen their understanding of the development process (develop thesis ideas)
- integrate behavioral insights for institutional design (for example, nudging social preferences)

Learning Activities and Teaching Methods:

Short lectures will provide structure and a theoretical framework to guide the discussions and student presentations. Besides lectures, the course will involve seminar-style discussions, student-led paper discussions, experimental methods, and team presentations.

Assessment:

Paper discussion: 15%

Assignments/short notes: 25%

Team Presentation: 20%

Final paper: 40%

The final paper should be no longer than 3000 words. Succinct clarity will be appreciated, so fewer words are better as long as it makes the point. Conceptually, I am looking for (1) a well-defined research question (2) appropriate methodological framework to answer the question (3) analysis/empirical evidence and development of argument (4) summary/conclusions, takeaways, potential problems in your analysis. In terms of structure (1) Introduction (background, research question) (2) Empirical strategy (3) Data, analysis (development of arguments) (4) Conclusion.

Course Content and Readings:

Week 1- Institutions: Structure and Role

Importance and role of Institutions (formal and informal)

Hall, Robert and Jones, Charles, 1999. "Why Do Some Countries Produce So Much More Output Per Worker Than Others?" *The Quarterly Journal of Economics*, 1999: 83-116.

(required reading)

Williamson, Oliver. 2000. "The New Institutional Economics," *Journal of Economic Literature*.

(required reading, 16 pages)

Grosjean, Pauline. 2014. "A History of Violence: The Culture of Honor and Homicide in the US South," *Journal of the European Economic Association*, vol. 12, no. 5, pp. 1285 - 1316.

Gorodnichenko, Y. and Roland, G., 2017. Culture, institutions, and the wealth of nations. *Review of Economics and Statistics*, 99(3), pp.402-416.

North, Douglas. 1991. "Institutions," *Journal of Economic Perspectives*.

Week 2- Review of tools and Methods

An overview of the key approaches and empirical methods used when analyzing institutions and behavior (OLS, instrumental variables, RCT - lab and field experiments)

Angrist, J.D. and Pischke, J.S., 2010. The credibility revolution in empirical economics: How better research design is taking the con out of econometrics. *Journal of economic perspectives*, 24(2), pp.3-30. *(required reading: pp. 3 - 17, 23 - 30)*

Nunn, Nathan. 2009. "The Importance of History for Economic Development," *Annual Review of Economics*, Vol.1, No. 1, pp. 65-92.

Deaton, A., 2010. Instruments, randomization, and learning about development. *Journal of economic literature*, 48(2), pp.424-55.

Angrist, Joshua D., and Jörn-Steffen Pischke. *Mastering 'metrics: The path from cause to effect*. Princeton University Press, 2014.

Week 3 – Institutional Origins and Persistence

Origins and development of formal institutions

Acemoglu, Daron, Simon Johnson, and James Robinson. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review*, volume 91, pp. 1369-1401. *(required reading)*

Acemoglu, Daron, Simon Johnson, and James Robinson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *The Quarterly Journal of Economics*, vol 117, pp. 1231- 1294.

Easterly, William and Ross Levine, 2003. "Tropics, germs, and crops: how endowments influence economic development," *Journal of Monetary Economics*, vol 50, pp. 3 - 39.

Robinson, J. and Acemoglu, R., 2012. Why nations fail. Crown Publishing Group.

Week 4 – Formal and informal institutions interact

Feedback effects between formal rules and culture

Lowes, S., Nunn, N., Robinson, J.A. and Weigel, J.L., 2017. The evolution of culture and institutions: Evidence from the Kuba kingdom. *Econometrica*, 85(4), pp.1065-1091. *(required reading: pp. 3 - 17, 23 - 30)*

Gibbons, Robert. 2000. "Four Formal(izable) Theories of the Firm," *Journal of Economic Behavior and Organization*.

Crawford, S. and E. Ostrom. 1995. "A Grammar of Institutions," *The American Political Science Review*, Vol. 89, No. 3, pp. 582-600.

Week 5 - Long shadow of history

Historical accidents and events have long term economic effects

Nunn, Nathan. 2009. "The Importance of History for Economic Development," *Annual Review of Economics*, Vol.1, No. 1, pp. 65-92. *(required reading)*

Nathan Nunn and Leonard Wantchekon. 2011. "The Slave Trade and the Origins of Mistrust in Africa," *American Economic Review*, Vol. 101, No. 7

Banerjee, Abhijit, and Lakshmi Iyer. 2005. "History, Institutions and Economic Performance: the Legacy of Colonial Land Tenure Systems in India," *American Economic Review* 95, no. 4, pp. 1190-1213

Kuran, T., 2018. Islam and economic performance: Historical and contemporary links. *Journal of Economic Literature*, 56(4), pp.1292-1359. *(required reading)*

Week 6 – Beliefs, norms and culture

Norms are equilibrium group beliefs

Algan, Yann and Pierre Cahuc. 2010. "Inherited Trust and Growth," *American Economic Review* *(required reading)*

Chen, Keith. 2013. "The Effect of Language on Economic Behavior: Evidence from Savings Rates, Health Behaviors, and Retirement Assets," *American Economic Review*. *(required reading)*

Bicchieri, C., 2005. *The grammar of society: The nature and dynamics of social norms*. Cambridge University Press. (book)

Bednar, Jenna, Andrea Jones-Rooy, and Scott E. Page. "Choosing a Future based on the Past Institutions, Behavior, and Path Dependence," *European Journal of Political Economy*.

Week 7 – Persistent beliefs and norms

How beliefs foster discrimination and gender biases?

Bursztyn, L., González, A.L. and Yanagizawa-Drott, D., 2018. Misperceived social norms: Female labor force participation in Saudi Arabia (No. w24736). National Bureau of Economic Research. (*required reading*)

Bisin, Alberto and Thierry Verdier. 2000. "Beyond the Melting Pot: Cultural Transmission, Marriage and the Evolution of Ethnic and Religious Traits" *The Quarterly Journal of Economics*. (*required reading, pp. 955 - 963, pp. 978 - 983*)

Fernandez, R. and Fogli, A., 2009. Culture: An empirical investigation of beliefs, work, and fertility. *American Economic Journal: Macroeconomics*, 1(1) (*required reading, pp. 146 - 162, 172 - 175*)

Tabellini, G., 2008. The scope of cooperation: Values and incentives. *The Quarterly Journal of Economics*, 123(3), pp.905-950.

Luigi Guiso, Paola Sapienza, and Luigi Zingales, 2009. "Cultural Biases in Economic Exchange," *The Quarterly Journal of Economics*

Hoff, K. and Pandey, P., 2006. Discrimination, social identity, and durable inequalities. *American Economic Review*, 96(2), pp.206-211.

Week 8 – Incentives and institutional design

Incentives shape behavior (individual and collective)

Bowles, S. and Polania-Reyes, S., 2012. Economic incentives and social preferences: substitutes or complements?". *Journal of Economic Literature*, 50(2), pp.368-425. (*required reading*)

Kraft-Todd, G., Yoeli, E., Bhanot, S. and Rand, D., 2015. Promoting cooperation in the field. *Current Opinion in Behavioral Sciences*, 3, pp.96-101.

Rode, J., Gómez-Baggethun, E. and Krause, T., 2015. Motivation crowding by economic incentives in conservation policy: A review of the empirical evidence. *Ecological Economics*, 117, pp.270-282.

Bowles, S., 2016. *The moral economy: Why good incentives are no substitute for good citizens*. Yale University Press.

Week 9 – Behavioral economics and nudging

Can behavioral insights improve policy making?

Thaler, R.H., 2018. From cashews to nudges: the evolution of behavioral economics. *American Economic Review*, 108(6), pp.1265-87.

Thaler, R.H. and Sunstein, C.R., 2009. *Nudge: Improving decisions about health, wealth, and happiness*. Penguin. (*required reading Ch. 1, 4, and 15*)

Chetty, R., 2015. Behavioral economics and public policy: A pragmatic perspective. *American Economic Review*, 105(5), pp.1-33.

Shampanier, Kristina, Nina Mazar, and Dan Ariely. "Zero as a special price: The true value of free products." *Marketing Science* 26.6 (2007): 742-757.

Week 10 – Nudging pros and cons

Efficiency and the knowledge problem in nudging

Allcott, H. and Rogers, T., 2014. The short-run and long-run effects of behavioral interventions: Experimental evidence from energy conservation. *American Economic Review*, 104(10), pp.3003-37. (*required reading*)

Saghai, S. Salvaging the concept of nudge, *J Med Ethics* (2013) 39: 487-493

Rizzo, M.J. and Whitman, D.G., 2009. The knowledge problem of new paternalism. *BYU L. Rev.*, p.905. (*required reading*)

Cialdini, R.B., Demaine, L.J., Sagarin, B.J., Barrett, D.W., Rhoads, K. and Winter, P.L., 2006. Managing social norms for persuasive impact. *Social influence*, 1(1), pp.3-15.

Week 11 – When not to nudge

Nudging can backfire

Damgaard, M.T. and Gravert, C., 2017. Now or never! The effect of deadlines on charitable giving: Evidence from two natural field experiments. *Journal of Behavioral and Experimental Economics*, 66, pp.78-87. *(required reading)*

Farrell, A.M. and Weisbenner, S.J., 2016. Decision-making approaches and the propensity to default: Evidence and implications. *Journal of Financial Economics*, 121(3), pp.477-495.

Bower, B. (2017) Nudging people to make good choices can backfire *Science News*

Week 12- Student team presentations

Pick a topic/theme; design institutions with behavioral insights (2/3 per team).