

Syllabus: Institutional and Behavioral Economics

CEU Vienna, Winter 2021

Instructor: Anand Murugesan

Course Number: SOPP5395

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Class meetings: Mondays: 13.30 – 15:10, QS D-105

Office hours: Mondays: 15.30 - 16.30, QS B-112

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. In the course, we examine the role of history and both formal and informal institutions (culture) in the performance of economies. We take a microeconomic and behavioral approach to understand the feedback between individual beliefs, choices, and institutions and include a module on nudging.

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 can false beliefs and norms persist in societies? How can we use behavioral tools to design better institutions?

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/discussion notes: 40%

Team Presentation: 20%

Final paper: 40%

Final paper: 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. You are welcome to write an empirical paper (with data analysis). Alternatively, you can outline how you would conduct empirical research on a specific question (e.g., stating the data available; data you will additionally collect; detailed empirical steps and strategy). You are also welcome to write a theoretical paper supported with suggestive data (e.g., graphs, table). The novelty and quality of the research question will be weighted highly (25%) along with the depth of the institutional perspective (25%).

The readings in bold are the mandatory readings assigned for student led discussion, where students will submit their discussion notes (half a page of bullet points will suffice) prior to class on Moodle. Each student is required to submit 9 discussion notes. Some sessions have several required readings, but students should submit the discussion notes only for the ones indicated in bold.

Course Content and Readings:

Week 1 – Institutions: Structure and Role

Importance and role of Institutions (formal and informal)

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

* 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.

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)

* **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, 1369 - 1395)***

Albouy, D.Y., 2012. The colonial origins of comparative development: an empirical investigation: comment. *American Economic Review*, 102(6), pp.3059-76. *(required reading, 3059 - 3066)*

Angrist, Joshua D., and Jorn-Steffen Pischke. *Mastering 'metrics: The path from cause to effect*. Princeton University Press, 2014. (Ch. 2 and Ch. 3)

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. *(further reading: pp. 3 - 17, 23 - 30)*

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

Week 3 – Institutional Origins and Persistence

Origins and development of formal institutions

* **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. (required reading, 1231- 1279)**

Nunn, Nathan. 2009. “The Importance of History for Economic Development,” *Annual Review of Economics*, Vol.1, No. 1, pp. 65-92. (cursory reading – I recommend that you skim through this paper for an overview. The birds eye-view will help put the topics of the course in context.)

Rodrik, D., Subramanian, A. and Trebbi, F., 2004. Institutions rule: the primacy of institutions over geography and integration in economic development. *Journal of economic growth*, 9(2), pp.131-165.

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 – Long shadow of history

Historical accidents and events have long term economic effects

* **Nathan Nunn and Leonard Wantchekon. 2011. “The Slave Trade and the Origins of Mistrust in Africa,” *American Economic Review*, Vol. 101, No. 7 (required reading)**

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.

Week 5 – Culture and economic outcomes

Influence of culture

* **Guiso, Luigi, Paola Sapienza, and Luigi Zingales. 2006. “Does Culture Affect Economic Outcomes?” *Journal of Economic Perspectives*, Spring. (required reading)**

Algan, Yann and Pierre Cahuc. 2010. “Inherited Trust and Growth,” *American Economic Review*

Sugden, Robert. 1989. “Spontaneous Order,” *The Journal of Economic Perspectives*, Vol. 3, No. 4. (Autumn, 1989), pp. 85-97.

Tabellini, Guido. 2008. “Institutions and Culture,” *Journal of the European Economic Association*, Vol.6(2-3).

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

Week 6 – Formal and informal institutions

Formal rules and culture interact

* **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 - write discussion note)**

Alesina, A., Giuliano, P. and Nunn, N., 2013. On the origins of gender roles: Women and the plough. *The Quarterly Journal of Economics*, 128(2), pp.469-530. (*read the introduction*)

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)

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

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

Week 7 – 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 8 – Persistent beliefs and discrimination

How beliefs foster discrimination and gender biases?

* **Bursztyn, L., Gonzalez, 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 - write discussion note)**

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*)

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 9 – Incentives and institutional design

Incentives shape behavior (individual and collective)

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 (required reading, discussion note)

Schultz, P.W., Nolan, J.M., Cialdini, R.B., Goldstein, N.J. and Griskevicius, V., 2007. The constructive, destructive, and reconstructive power of social norms. *Psychological science*, 18(5), pp.429-434 (required reading, discussion note)

Bowles, S. and Polania-Reyes, S., 2012. Economic incentives and social preferences: substitutes or complements?". *Journal of Economic Literature*, 50(2), pp.368-425. (*sections 1,2,3,10,11,12, required reading*)

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

Week 10 – Behavioral economics and nudging

Can behavioral insights improve policy making?

Benartzi, S., Beshears, J., Milkman, K.L., Sunstein, C.R., Thaler, R.H., Shankar, M., Tucker-Ray, W., Congdon, W.J. and Galing, S., 2017. Should governments invest more in nudging?. *Psychological science*, 28(8), pp.1041-1055. (required reading, discussion note)

Grimalda, G., Ponderfer, A. & Tracer, D. Social image concerns promote cooperation more than altruistic punishment. *Nature Commun* 7, 12288 (2016). (required reading, discussion note)

Thaler, R.H., 2018. From cashews to nudges: the evolution of behavioral economics. *American Economic Review*, 108(6), pp.1265-87. (recommended reading for the class, section I, II, III, IV, VIII, IX) or at least section VIII and IX

Further reading

Thaler, R.H. and Sunstein, C.R., 2009. *Nudge: Improving decisions about health, wealth, and happiness.* Penguin. (suggested 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. Leonardo Bursztyn & Robert Jensen, 2016. "Social Image and Economic Behavior in the Field: Identifying, Understanding and Shaping Social Pressure," NBER Working Papers 23013, National Bureau of Economic Research, Inc.

Brandon, A., Ferraro, P.J., List, J.A., Metcalfe, R.D., Price, M.K. and Rundhammer, F., 2017. Do the effects of social nudges persist? Theory and evidence from 38 natural field experiments (No. w23277). National Bureau of Economic Research.

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

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.

Week 11 – (When) To Nudge or Not (online)

Efficiency and the knowledge problem in nudging

Gary Bolton & Eugen Dimant & Ulrich Schmidt, 2019. "When a Nudge Backfires: Using Observation with Social and Economic Incentives to Promote Pro-Social Behavior" (required reading, pp 1 - 6)

Damgaard, M.T., and Gravert, C., 2018. Damgaard, M.T., and Gravert, C., 2018. The hidden costs of nudging: Experimental evidence from reminders in fundraising. *Journal of Public Economics* (required reading, discussion note)

Further reading

Rizzo, M.J. and Whitman, D.G., 2009. The knowledge problem of new paternalism. *BYU L. Rev.*, p.905. (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; explore/investigate a puzzle, issue with the institutional perspective or design institutions with behavioral insights (3 per team).