**Econ 5370: Markets and Governance Institutions: The Economics of Collective Action**

**Objective**: The course is designed to introduce students to new developments in institutional economics to provide an intuitive yet rigorous study of strategic behavior under different institutional settings. The hope is that students will come out of this class with a firm understanding of the decisive role Institutions play in whether markets thwart or amplify negative externalities and market failures caused by enforcement and information problems.

**Synopsis**: As we pursue our own economic ends in a market economy the effect our actions have on others’ wellbeing is called externalities. Given the increased web of social connectedness in modern life, the more complex a market economy is the more ubiquitous they are. That poses a potential threat. The generalized pursuit of self-interest is socially optimal the way Adam Smith had envisioned only in the absence of market failures externalities can cause. The issue boils down to whether at the individual level one’s self-seeking behavior clashes with his concern for others, especially when his actions indirectly harm their wellbeing without making him/her legally liable. In a foregone simpler world, the fear of being shunned by their communities could constrain opportunistic self-seekers and make them socially liable for their actions. But, today we trade ever more with anonymous others with whom we might share few social bonds and common values and thus can hardly rely much on a shared sense of civic duty and virtue. Moreover, the problem is compounded by the increased complexity of goods and services produced in our knowledge based economy that creates ample new opportunities for socially costly opportunistic behavior on the part of both firms and customers. If we can no longer rely on common social ties and the community’s approbation for social responsibility the next best thing is to fashion institutions that work reasonably well in their absence. Whether a market economy works well or not then depends very much on the type of institutions that prevent socially costly forms of self-seeking and the market failures and externalities they cause.

**Readings are selected chapters from:**

- Bates, R. (2010). *Prosperity and Violence*

and, following articles:


Course Evaluation is based on:

- 5 short exams (50%)
- Term Paper/Project (20%)
- Final Exam (30%)

Provisional Exam Schedule:

- September 13
- September 29
- October 27
- November 15
- December 6
- Final Exam Date to be announced

**Course Outline**

I. Review of Standard Micro Model - Basic Precepts of Welfare Economics
   - Private vs Social Cost and Efficiency
   - Externalities and other types of Market Failure
   - Readings: Prasch: Lecture II
     Cassidy: Chp. 9 and 10

II. What is ignored in the Standard Model?
   - Spot vs Relational Contracts – Different Types of Markets
   - Information, Enforcement Problems and Network Externalities
   - Strategic Maximizing Behavior
   - Reading: Prasch: Lecture III

III. Examples of Socially Costly Maximizing Behavior
   - Enlightened vs short term self-interest
IV. Collective Action

Coordination, Cooperation and Clubs
Market Exchange as Prisoner’s Dilemma
Enforcement of Property Rights and Social (Contractual) Obligations
Risk Management and Private Protection of Property Rights

Reading: Hardin: Chp 2
Grief (2000)

V. From Kinship Clubs to the Modern State

Organization of Protection and Violence
Community Responsibility System
Political Coordination, Power and Network Externalities
State as a Discriminating Monopolist
Contract vs Predator State

Reading: Bates: Chps 2 and 3
North: Chp 3