

Complete student's manual to the course „Introduction to Institutional Economics” in the winter term 2020/21

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The purpose of this manual is to document the “rules of the game” in this course and to guide you in your decision if and when to study this course. Please read the document carefully.

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Course content

Institutions define “the rules of the game”. We will look at four kinds of problems that may require particular rules: cooperation problems, coordination problems, imperfect information and concentration of market power, and we will see how these problems give rise to transaction costs. The presence of transaction costs in turn gives rise to the relevance of governance structures, e.g. whether transactions are better executed within a firm or on a market. We will have a closer look at the possible governance structures in the light of the problems mentioned above. Besides the governance structures that private parties can choose, another option to deal with the above problems is state intervention, which may come along with its own specific problems, on which institutional economics offers a perspective as well.

In this course, you will be exposed to the following questions: What are institutions? How do they come about? How are they embedded? How do they change? How do economic outcomes depend on the institutional framework? What kind of institutions are suitable to tackle cooperation problems, coordination problems, and problems originating from an asymmetric distribution of information or a concentration of market power? What are transaction costs, what are their origins, and how to minimize them? What are potential problems when the state intervenes?

Learning goals

Your course work is supposed to enable you to give answers to the above questions, and to:

- explain the role of institutions as solutions for social dilemmas, coordination problems and to govern transactions,
- assess the relevance of transaction costs for different kinds of transactions and the suitability of different mechanisms to reduce transaction costs in the presence of imperfect information,
- point at institutional differences as possible explanations for differences in behavior and performance,
- apply concepts and arguments from institutional economics to simple problems, and to
- evaluate alternative institutional solutions.

Key concepts

Institutions, (bounded) rationality, social dilemma, trust, coordination problem, equilibrium multiplicity, transaction costs, property rights, public goods, the tragedy of the commons, externalities, asymmetric information, moral hazard, adverse selection, reputation, signaling, (incomplete) contracts, hold-up problem, asset specificity, commitment problem

Institutional economics' tool box

Game theory, principal-agent theory, mechanism design, experiments, evolutionary economics, econometric analysis (our focus will be on game theory and principal-agent theory).

Prerequisites

Ideally, you have completed the course “Introduction to Economics” before this course. In particular, we take it for granted that you are familiar with concepts such as utility functions, optimization, or Pareto efficiency, and we assume that you are comfortable with taking derivatives, taking expectations of simple lotteries, and simple algebra.

Text books

You will find most of the material covered in one (or both) of these text books:

- Groenewegen, Spinhoven & van den Berg (2010): Institutional Economics—An Introduction. Palgrave MacMillan.
- Voigt (2019): Institutional Economics—An Introduction. Cambridge University Press.

Course organization & tasks

You will study this course completely online on ILIAS, at your own pace and in your preferred time slots. [Please join ILIAS via this link](#). You find all the course components that are explained below on ILIAS. We have scheduled one online meeting at the beginning of the term. Further online meetings will be scheduled in response to specific requests if necessary, and will be explicitly announced.

Course components

The course consists of:

- Seven [learning modules](#)
- Quizzes
- Online assignments with specific deadlines:
 - o Essay tasks
 - o Exercise tasks
- Forum interaction

In the *learning modules* you find all the material to be studied. For your convenience, all the files that are linked in the learning modules are collected in the folder *course material*. You can organize your studies according to your own time preferences and constraints. We suggest an [ideal timeline](#) for your studies.

The purpose of the *quizzes* is to assess your learning success (of course, to a less than perfect extent). Ideally, you complete the learning module before attempting the associated quiz.

Furthermore, you ideally pass the quiz associated with a learning module before participating in the online assignment associated with it. For each quiz, a random composition of questions is drawn from a pool associated with the learning module. You can take the quizzes as often as you please. The question pools that are used for the quizzes are the basis for a test which is part of your [examination](#). You can also earn [bonus points](#) for your timely participation, as explained below.

You will find the instructions for the *online assignments* on ILIAS. Online assignments come in two types: either as an *essay task* or as an *exercise task*. Each online assignment consists of the submission of your own solution (before a specified [deadline](#)), and a review of two randomly assigned peers' solutions (before a second specified [deadline](#)). If you have submitted your own solution before the specified deadline, at the deadline ILIAS will assign the work of two peers to you (likewise, your solution will be assigned to two peers). A sample solution will be provided. You can earn [bonus points](#) for your helpful reviews, as explained below.

- In the *essay tasks* you apply institutional economics reasoning to specific problems, i.e. you identify the relevant concepts, and you connect them to the context at hand. You find the [criteria that make a good essay](#) below. By reviewing your peers' work, you are confronted with other perspectives, which will help you to reflect on your own essay writing skills and to improve them. The same is certainly true for receiving feedback from your peers.
- In the *exercise tasks*, you learn to handle selected tools from the institutional economics' tool box, and to document their application properly. The peer-reviewing helps you to recognize the strengths and shortcomings in your own and your peers' solutions and you will receive peer feedback on how well you documented your solution.
- Note that you will have access to your peers' feedback on your own solution to an online assignment only if you contribute peer feedback on at least one of your peers' solutions to that online assignment.
- A task that is similar to the online assignments will be part of your [examination](#). In addition, you can earn [bonus points](#) for providing peer feedback, as explained below.

Use the *course forum* to ask questions on any issue that may remain unclear. If the clarification of an issue requires deeper elaboration than is possible via the course forum, we will schedule an online meeting, which will in that case take place on a Wednesday between 12:15 CET and 13:45 CET (the slot

reserved for our course according to Marvin, which should avoid overlap with your other courses). You will find the link to a scheduled meeting on ILIAS.

Examination

The examination mode is an *online examination*, consisting of:

- a test
- an essay task and/or an exercise task

The online examination tasks will become available on ILIAS for 90 minutes (one after the other), starting at a point in time that will be determined by the examination office (and will be announced in due time on ILIAS). The test will be available only during the first 30-minutes-window, and your working time for the test will be limited to 20 minutes within this time window. The second task (essay and/or exercise) will be available for the next 60 minutes, which shall give you sufficient time to prepare your solution for the submission via ILIAS (working time ca. 40 minutes).

You can access all the course material during the examination. Note that the online examination is an individual examination. You must solve the examination tasks alone, without any help from your fellow students.

As usual: (i) there will be two dates for taking the examination, (ii) you can decide whether to sign up for the first or for the second sit, (iii) you cannot repeat the examination in the second sit if you already passed in the first sit. Your bonus points count for your point score in both sits (even if you would fail the examination without the bonus points). If you do not wish your bonus points to be counted, please send us an e-mail before taking the examination. In this case, your bonus points count neither for the first nor for the second sit.

Bonus points

We award bonus points for your completion of tasks that contribute to the learning of the group. As a positive side effect, the opportunity to earn bonus points for the completion of tasks before specified deadlines may contribute to overcoming a tendency to procrastinate. You can earn a bonus point for:

- ... each quiz that you pass before its [deadline](#). You find instructions on ILIAS how to claim your bonus points for having passed a quiz in time.
- ... each qualified review that you provide on a peer's solution to an essay or exercise task (your own submission of a solution to the task at hand is a prerequisite for taking part in the reviewing process).
- ... pointing out a flaw in the learning material which has the potential to interfere with the students' learning success. Despite all our efforts to present the material in an accessible and coherent way, some mistakes may have escaped our attention. Please post in the course forum if you spotted such a flaw or something that puzzles you. We are grateful for your feedback.

A maximum of 12 bonus points can enter your evaluation. When you already collected 12 bonus points, be assured that your efforts will be all the more appreciated if you continue to complete the quizzes timely, provide helpful feedback to your peers and/or help us to improve the learning material.

What qualifies as a "flaw" or as a "qualified review" that merits a bonus point will ultimately be judged by us. Our expectations on a qualified review are formulated [here](#). You will receive immediate feedback when we award a bonus point for your hint to a flaw in our reply to your forum post. Bonus points that are awarded for the reviews will be documented in the ILIAS exercise tool "Online assignments", where you also hand in your solutions and reviews. Bonus points for the quizzes need to be "claimed" and will be documented in the same tool (as explained on ILIAS "On the quizzes").

Grading

The points awarded for the tasks to be solved in your examination will sum up to 60 points. Your bonus points (up to 12 bonus points) will be added to the sum and the total will be translated into a grade as follows:

Point score	< 30	< 33	< 36	< 40	< 43	< 47	< 50	< 52	< 54	< 56	< 58	60+
Grade	fail	5	6	7	8	9	10	11	12	13	14	15

Examples:

28 points earned in the online examination + 5 bonus points → Point score = 33 → 6 points
40 points earned in the online examination + 10 bonus points → Point score = 50 → 11 points
60 points earned in the online examination + 12 bonus points → Point score = 72 → 15 points

Registration

Only students who are registered for the examination will have access to the tasks. We offer two possibilities to take your online examination. You will hence find two options for registering for the online examination, labeled as “home examination” and “pc pool examination”, respectively. You can either access the tasks via an internet connection of your own choice as a *home examination*, or sign up for a seat in one of the university’s computer pools, as a *pc pool examination*.

We recommend to register for the pc pool examination if you have no stable access to the internet; when registering for the home examination, you will be responsible for your own access to the internet. If you register for the pc pool examination, you will be informed about the location of your seat by the examination office (via the “Sitzplatzliste”). We recommend to bring earplugs to an examination in the pc pool. In order to keep the noise level in the pc pool at a bearable level, no electronic equipment besides the provided computer will be allowed.

Be aware of the deadlines for registration as announced by the school’s examination office on [their website](#).

Information for students from other departments

Students from other departments have to register for credits at the School of Business & Economics. Please fill in the form of the examination office for this purpose. Here is the [link to the file](#). In addition, you have to register for the examination as explained in the previous paragraph.

Information for exchange students

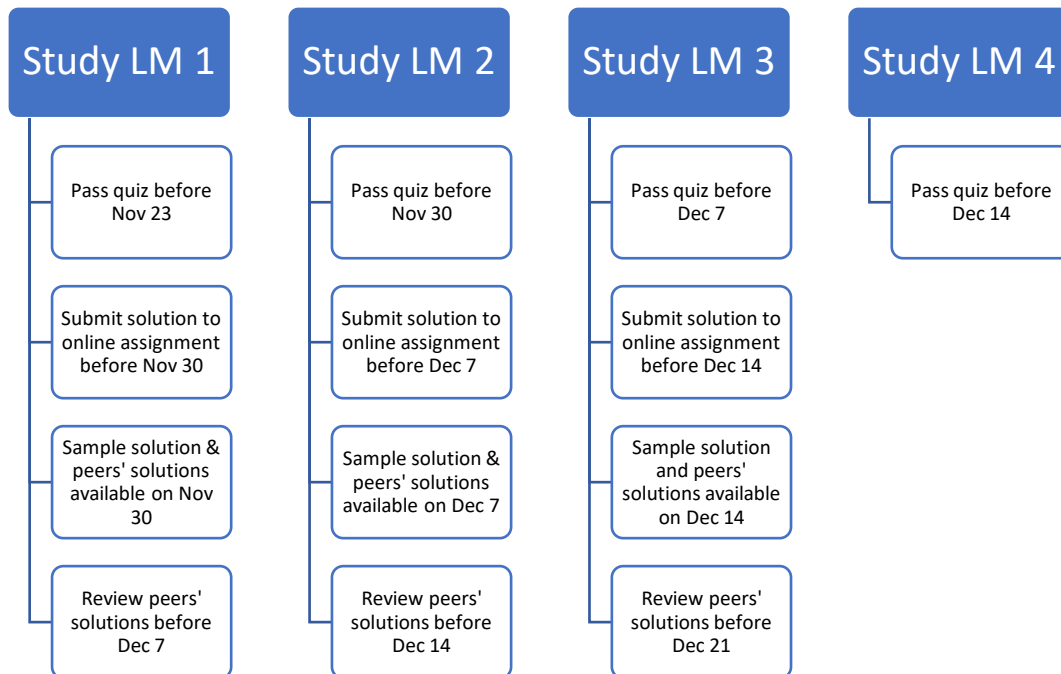
Your contact person at the school of Business & Economics is Lawrence Brown. He informs you how to register for the examinations in your courses. Contact him via e-mail to: Lawrence.brown@wiwi.uni-marburg.de

Ideal time line

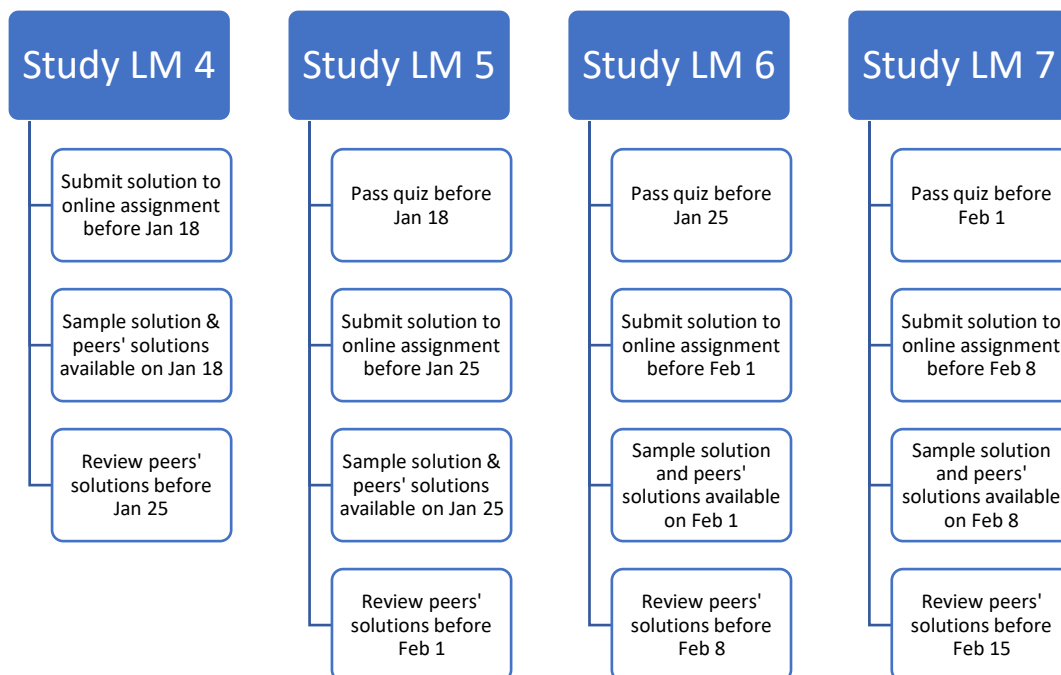
Note: All the tasks related to the first four learning modules can be accessed right from the beginning of the term. The earlier you start your studies, the better! In the table below, “Q” refers to quiz, “OA” refers to the solution of an online assignment and “R” refers to its review phase. The shaded areas indicate time for your engagement with the learning modules. You should devote ca. 20 hours (on average) to each learning module.

		WEEK													
M O D U L E		1	2	3	4	5	6	7	X M A S B R E A K	8	9	10	11	12	13
	1			Q	OA	R									
	2				Q	OA	R								
	3					Q	OA	R							
	4						Q			OA	R				
	5									Q	OA	R			
	6										Q	OA	R		
	7											Q	OA	R	

The **deadlines** for the completion of the tasks are listed below. If you *stay 5-7 days ahead* of the deadlines, you follow an “ideal time line” in the sense that you will avoid the stress levels that upcoming deadlines tend to induce, and your memory will still be fresh when the reviewing phases begin. All deadlines refer to 15:00 CET.



*****X-mas break*****



Outline of learning modules

The learning modules contain a material mix that is organized to best be studied in the presented sequence, but you can also navigate freely. Use the tab “Table of contents”/“Inhaltsverzeichnis” to display the table of contents.

You will find a collection of the slides that appear in a learning module on its front page. Due to the shortened term, some material is labeled as “optional”. Consider it as an invitation to dive deeper. It will not be part of the examination.

If you face difficulties to access any of the media that we use to convey the content (e.g., due to a visual impairment), please let us know and we will offer a more accessible substitute.

LM 1: Introduction

We will look at several conceptualizations of institutions, distinguish between perspectives from different schools, and spell out the viewpoints that are particular to institutional economics. We also look at the ways in which institutions are established and possibly change.

LM 2: Social dilemmas

We will capture social dilemmas (public good provision, the tragedy of the commons, dealing with externalities) in a simple normal form game (“the prisoner’s dilemma”) and analyze it with game-theoretical methods. Thereafter, the perspective on the problems is broadened and institutions to deal with them are being discussed.

LM 3: Coordination problems

We will introduce coordination problems in strategic situations without underlying conflicts of interests, and we will discuss institutions as solutions to such problems and as obstacles to overcome inefficiencies. Broadening the perspective, we will look at the problem of coordinating economic activities.

LM 4: Imperfect information and market power

We will introduce imperfect information and market power as deviations from perfect markets, derive their consequences for economic outcomes, and analyze institutions to deal with these problems.

LM 5: Transactions, transaction costs and their origins

We will illustrate how information imperfections, a lack of property rights, an incompleteness of contracts, and other frictions give rise to transaction costs. We will introduce the concept of asset specificity and the resulting hold-up problem.

LM 6: Governance structures

We will look at markets, contracts and firms as possible structures to govern transactions, and their differences in dealing with cooperation and coordination problems, transaction costs and uncertainty.

LM 7: State intervention

We will focus on selected problems that may accompany state intervention from an institutional economics perspective. In particular, we will look at the problem of reaching collective decisions, the problem of rent-seeking and the commitment problem.

Guideline for the online assignments

The essay tasks

In the essay tasks, you are supposed to apply institutional economics reasoning to a specific problem. You are expected to identify the relevant concepts, explain them and their relation to the problem

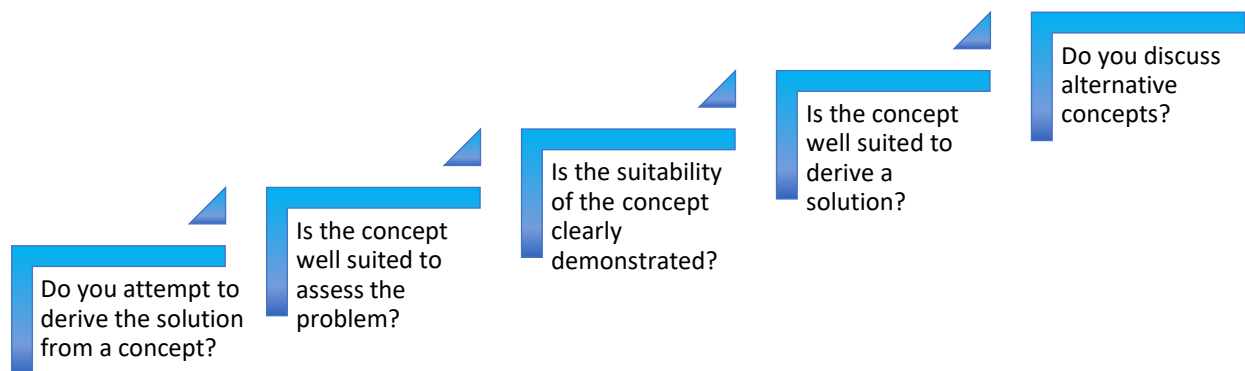
correctly and present your line of argumentation in a suitable structure. These criteria are spelled out in more detail below. The stepwise order in the graphical representation is supposed to indicate that performance on higher steps usually requires performance on the lower steps.

You submit your solution via a text field that ILIAS provides. We recommend to use a text editor to prepare your solution. Be aware of ILIAS' auto-log-off after an hour of (apparent) inactivity (ILIAS does not recognize your typing in the text field as activity). Your solution will be assigned for review to two peers. If you want to maintain your anonymity, do not write any personal details (such as your name or your matriculation number) into your text.

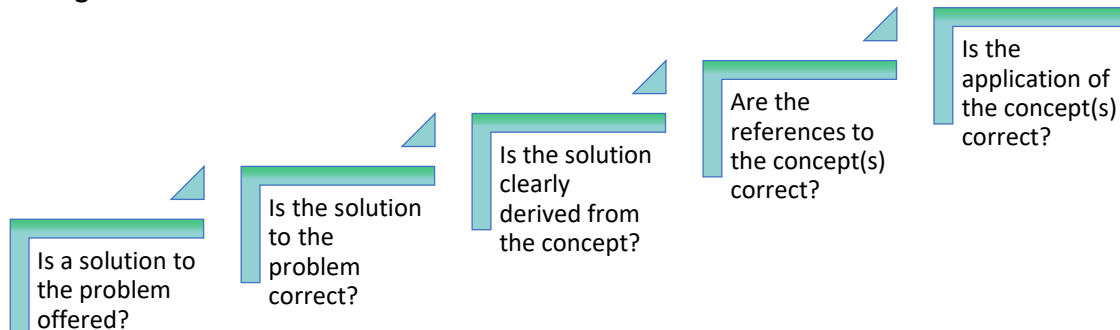
We will review samples of the submissions as well as of the reviews and we will use text mining techniques to detect plagiarism.

Criteria for assessing your essay

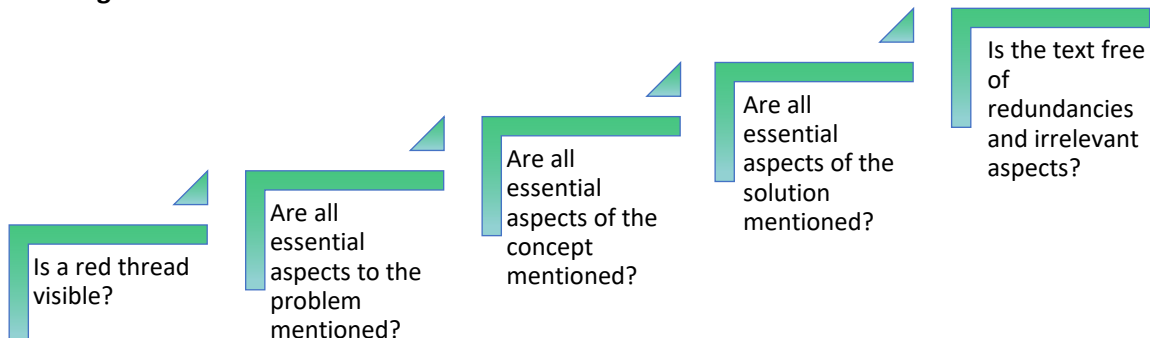
Assessing the relevance:



Assessing the correctness:



Assessing the structure:



Providing feedback on your peer's essay

In the review part, please provide specific feedback and an assessment of your peer's work. Please leave your comments in the text field offered for this purpose and assess the essay on a 5-star-scale. We will use your ratings as a measure for agreement between the reviewers and for selecting samples for our own reviews. In your review, comment the questions mentioned above. The following table is supposed to provide a benchmark for the assessment and a guidance for your feedback. Note that solutions that merit 5 stars are rare.

Assessment	How to give feedback?
<p>★★★★★</p> <p>The text refers to a concept that is very well suited to assess the problem and to derive a solution. It clearly demonstrates the concept's suitability and it contains a discussion of alternative concepts. It presents a solution to the problem that is clearly derived from the concept(s). References to the concept(s) are correct. All essential aspects to the problem, the concept and the solution are being mentioned; and only those. The red thread of the argument is clearly visible.</p>	<p>You cannot provide any helpful feedback on a perfect solution. (This is not your fault. If we agree with your assessment, you will receive 0.5 bonus points for your assessment.)</p>
<p>★★★★</p> <p>The text refers to a suitable concept and offers a solution to the problem. It fails to clearly demonstrate the suitability of the concept or to discuss alternative approaches. The solution is correctly derived from the concept. Some aspects of the argument remain obscure or unclear. Almost all essential aspects to the problem, the concept and the solution are being mentioned. The red thread of the argument is visible.</p>	<p>Acknowledge the suitability of the concept and the solution to the problem. Point out missing connections between the concept and the problem and offer alternative perspectives on the problem.</p> <p>Point out open questions.</p> <p>Point out departures from the red thread. Add relevant information and point out why it is needed to follow the argument.</p>
<p>★★★</p> <p>The solution offered addresses the problem. There is reference to a concept and a vague demonstration of its suitability. No alternative approaches are being discussed. The application of the concept contains minor flaws. Some aspects of the argument remain obscure or unclear. Among other things, essential aspects are being mentioned. With a little effort on part of the reader, these are sufficient to see the connection between the problem, the concept and the solution. The text follows some structure.</p>	<p>Acknowledge the solution to the problem.</p> <p>Point out open questions regarding the relevance of the concept. Offer alternative perspectives on the problem.</p> <p>Point out the minor flaws in the argument and open questions.</p> <p>Point out on which parts the text lacks structure. Add relevant information and point out why it is needed to follow the argument or formulate open questions.</p>
<p>★★</p> <p>The solution offered does not directly address the problem. The concept's suitability is questionable. No alternative approaches are being discussed. The application of the concept contains major flaws. Many aspects of the argument remain obscure or unclear. Only a benevolent reader finds essential aspects and connections between problem, concept and solution. The text is not organized well enough to clearly distinguish between problem, concept and solution.</p>	<p>Point out the discrepancy between the problem posed and the problem being addressed. Point out the problems in the application of the concept. Sketch a solution to the problem, applying a suitable concept.</p> <p>Point out the flaws in the argument and open questions.</p> <p>Ask the questions that need to be answered in order to be able to follow the argument.</p>
<p>★</p> <p>The solution offered is not relevant for the problem at hand, and/or there is no attempt to derive the solution from a concept. No derivation of the solution to the problem is offered. The text is unorganized. Aspects of the problem, the concept and the solution are wrongly assigned.</p>	<p>Point out the discrepancy between the problem posed and the problem being addressed.</p> <p>Sketch a solution to the problem, applying a suitable concept.</p> <p>Sketch a line of reasoning within a suitable concept.</p> <p>Point out deficiencies in the description of the problem, the concept and the solution.</p>

<u>No stars</u> No serious attempt to solve the problem has been made. The text is an instance of plagiarism or does not satisfy any of the criteria.	If the author apparently did not spend any effort on the solution, do not substitute it. Just write “zero effort” into the text field. In case of plagiarism, please refer to the original source.
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The exercise tasks

The exercise tasks will ask you to apply tools from the institutional economics tool kit. A file upload is required for this kind of task. Please provide your file in the format .pdf. If you scan or photograph a hand-written solution, please make sure that it is readable. You may have to compress the file size (you find solutions for this challenge if you search the internet for “compress pdf”). Your solution will be assigned for review to two peers. If you want to maintain your anonymity, do not write any personal details (such as your name or your matriculation number) into your file or its name. Please provide your feedback to a peer’s solution in either the text field or via a file upload (e.g. an annotated pdf). Rate your peer’s solution on a 5-star-scale. The following table is supposed to provide a benchmark for the assessment and a guidance for your feedback.

Assessment	How to give feedback?
<u>★★★★★</u> The file is uploaded in the required format pdf and readable. The solution is correct. The documentation contains all the steps that are necessary to follow the analysis.	You cannot provide any helpful feedback on a perfect solution. (This is not your fault. If we agree with your assessment, you will receive 0.5 bonus points for your assessment.)
<u>★★★★</u> The file is uploaded in the required format pdf and readable. The solution is correct. The documentation lacks a step such that it is not straightforward to follow the analysis.	Point out the missing step of the analysis.
<u>★★★</u> The file is uploaded in the required format pdf and readable. The solution is correct, the file is uploaded in the required format pdf. The solution is readable. The documentation lacks several steps and/or some steps are not correctly presented. A benevolent reviewer can still follow the analysis.	Point out missing steps and correct mistakes.
<u>★★</u> The file is uploaded in the required format pdf and readable. Some steps, as well as the solution are not entirely correct.	Point out missing steps and correct mistakes. Point out deviations from the correct solution.
<u>★</u> The file is uploaded in the required format pdf and readable. Some steps, as well as the solution contain serious flaws.	Point out missing steps and correct mistakes. Point out deviations from the correct solution.
<u>No stars</u> The file is not uploaded in the required format pdf or not readable.	If your fellow student apparently did not manage to provide an accessible solution, just write “not readable”.

Language support

The modern language center offers an English course that is intertwined with this course. Besides working on your English skills, you can earn credits for the key qualification module. You find more information [on this website](#).

Communication, feedback & updates of this document

We will use the ILIAS course forum as our exclusive communication channel. Please make sure that you regularly check the course forum or your e-mail address underlying your ILIAS profile.

The course forum is set up in a way that you will automatically receive an e-mail notification of each post. You can deactivate the e-mail notification (click on the bell-symbol in the forum). Please use the

forum for all questions that may be of interest for other students as well. Note that each modification of your posts triggers an e-mail to all course participants (for whom the notification is active). You may want to consider re-reading *before* posting.

Important announcements, such as updates to the content of this document, will (in addition to a forum post) be sent via e-mail to all ILIAS course members. We hope that modifications to these rules will not be necessary, but if so, the changes will be highlighted in the new version.

Your feedback is welcome. Please let us know if anything in this document or in the material on ILIAS is unclear.

You can expect a response to e-mails or forum posts within three days. If you have not received an answer after three days have passed, your issue may have escaped our attention. Please contact us again.

We are available for office hours. Please request an (online) office hour via e-mail.

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