

Professor Yingyi Qian
621 Evans Hall
Department of Economics
University of California
Berkeley, CA 94720-3880

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Office Hours: Wednesday 2:00-4:00
Phone: 510-643-0687
Email: yqian@econ.berkeley.edu
Website: <http://elsa.berkeley.edu/~yqian>

Economics 260B: Comparative Economics II

Comparative Economics II is a sequel to Comparative Economics I. While Comparative Economics I ([Econ 260A Syllabus](#)) focuses on the various “macro” aspects of institutions, such as the economic effects of alternative legal systems, financial systems, political systems, and culture, Comparative Economics II studies the “micro” aspects of contracts, organizations, and institutions, focusing on the forms of contracts, the functioning of organizations, and the mechanisms of institutions. The course investigates and compares, both theoretically and empirically, how markets, firms, and the state work in the real world to help, support, or hinder economic development.

Comparative Economics I (Econ 260A) is not prerequisite to Comparative Economics II (Econ 260B).

One of the course requirements is a research paper on a selected topic covered in the course. Students should decide on their own research project and submit the paper electronically by May 31, 2006.

Part 1. Elements: Contracts, Organizations, and Institutions

A. The Fundamental Ideas of the Market Economy

Hayek, F.A. "The Use of Knowledge in Society," *American Economic Review*, September 1945, 35(4), pp. 519-30.

Coase, Ronald. "The Nature of the Firm," *Economica*, November 1937, 4(16), pp. 386-405.

Coase, Ronald. "The Problem of Social Cost," *Journal of Law and Economics*, October 1960, 3, pp. 1-44.

B. The New Institutional Economics

Coase, Ronald. "The New Institutional Economics," *Journal of Theoretical and Institutional Economics*, 1984, 140(1), pp. 229-231.

Williamson, Oliver. "Reflections on the New Institutional Economics," *Journal of Theoretical and Institutional Economics*, 1985, 141(1), pp. 187-195.

North, Douglass. "The New Institutional Economics," *Journal of Theoretical and Institutional Economics*, 1986, 142(1), pp. 230-237.

Djankov, Simeon, Edward Glaeser, Rafael La Porta, Flerencio Lopez-de-Silanes, and Andrei Shleifer.
The New Comparative Economics. *Journal of Comparative Economics*, December 2003, 31(4), pp. 595-619.

Williamson, Oliver. *Markets and Hierarchies*. New York: The Free Press, 1974.

Williamson, Oliver. *The Economic Institutions of Capitalism: Firms, Markets, and Relational Contracting*. New York: Free Press, 1985.

North, Douglass. *Institutions, Institutional Change, and Economic Performance*. Cambridge: Cambridge University Press, 1990.

C. Information and Coordination

Weitzman, Martin, "Price vs. Quantities," *Review of Economic Studies*, October 1974, 41(4), pp. 477-91.

Cremer, Jacques. "A Partial Theory of the Optimal Organization of a Bureaucracy," *Bell Journal of Economics*, Autumn, 1980, 11(2), pp.683-693.

Bolton, Patrick and Joseph Farrell, "Decentralization, Duplication and Delay," *Journal of Political Economy*, August 1990, 98(4), pp. 803-26.

D. Hierarchies: Information Processing

Keren, M. and D. Levhari, "Decentralization, Aggregation, Control Loss and Costs in A Hierarchical Model of the Firm," *Journal of Economic Behavior and Organization*, 1989, 11(2), pp. 231-250.

Sah, Raaj, and Joseph Stiglitz, "The Architecture of Economic Systems: Hierarchies and Polyarchies," *American Economic Review*, September 1986, 76(4), pp. 716-727.

Radner, R., "Hierarchy: The Economics of Managing," *Journal of Economic Literature*, 1992, pp. 1382-1415.

E. Hierarchies: Incentives

Williamson, Oliver, "Hierarchical Control and Optimal Firm Size," *Journal of Political Economy*, 1967, pp. 123-138.

Calvo, G. and S. Wellisz, "Supervision, Loss of Control and the Optimal Size of the Firm," *Journal of Political Economy*, 1978, 86, pp. 943-952.

Qian, Yingyi, "Incentives and Loss of Control in An Optimal Hierarchy," *Review of Economic Studies*, July 1994, 61(3), pp. 527-544.

McAfee, R.P. and J. McMillan, "Organizational Diseconomies of Scale," *Journal of Economics and Management Strategy*, 1995, 4(3), pp. 399-426.

F. Hierarchies: Organizational Forms

Chandler, Alfred. *Strategy and Structure*, New York: Doubleday and Company, 1966.

Williamson, Oliver. *Markets and Hierarchies*, New York: Free Press, 1975.

Qian, Yingyi, and Chenggang Xu, "Why China's Economic Reforms Differ: M-Form Hierarchy and Entry/Expansion of the Non-State Sector," *Economics of Transition*, 1993, 1(2), pp. 135-170.

Maskin, Eric, Yingyi Qian, and Chenggang Xu, "Incentives, Information, and Organizational Form," *Review of Economic Studies*, April 2000, 67(2), pp. 359-378.

Qian, Yingyi, Gerard Roland, and Chenggang Xu, "Coordination and Experimentation in M-form and U-form Organizations," *Journal of Political Economy*, April 2006, forthcoming.

Part 2. Applications: Markets, Firms, and the State

I. Markets

A. Reputation Mechanisms and Private Contract Enforcement

Fudenberg, Drew and Jean Tirole, *Game Theory*, chapters 5 and 9, MIT Press, 1991.

Kandori, Michihiro, "Social Norms and Community Enforcement," *Review of Economic Studies*, 1992, 59, pp. 63-80.

Milgrom, Paul, Douglass North, and Barry Weingast, "The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Fairs," *Economics and Politics*, 1990, 2, pp. 1-23.

B. Evidence of Contracts Enforcement from Transition Economies

McMillan, John, "Contracts without Law," Section 9 in "Markets in Transition," in David Kreps and Kenneth Wallis (eds.), *Advances in Economics and Econometrics: Theory and Applications*, Cambridge: Cambridge University Press, 1996.

McMillan, John, and Christopher Woodruff, "Interfirm Relationships and Informal Credit in Vietnam," *Quarterly Journal of Economics*, 1999, 114(4), pp. 1285-1320.

McMillan, John, and Christopher Woodruff, "Dispute Prevention without Courts in Vietnam," *Journal of Law, Economics, and Organization*, 2001.

Johnson, Simon; John McMillan, and Christopher Woodruff, "Courts and Relational Contracts," *Journal of Law, Economics, and Organization*, 2002, 18(1), pp. 221-277.

C. The Regulation of Markets

De Soto, Hernando. *The Other Path: The Invisible Revolution in the Third World*. New York: Harper & Row, 1989.

Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, "The Regulation of Entry," *Quarterly Journal of Economics*, 2002, 117, pp. 1-37.

Botero, Juan, Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, "The Regulation of Labor," NBER working paper 9756, June 2003.

Glaezer, Edward; Simon Johnson, Andrei Shleifer. "Coase vs. the Coasian." *Quarterly Journal of Economics*, 2000.

II. Firms

A. Dynamic Incentives: The Ratchet Effect and Soft Budget Constraint

Weitzman, Martin, "The Ratchet Principle and Performance Incentives," *Bell Journal of Economics*, 1980.

Laffont, Jean-Jacques, and Jean Tirole, "Adverse Selection and Renegotiation in Procurement," *Review of Economic Studies*, 1990, 57, pp. 579-625.

Kornai, Janos, "The Soft Budget Constraint," *KYKLOS*, 1986, 39(1), pp. 3-30.

Dewatripont, Mathias, and Eric Maskin, "Credit and Efficiency in Centralized and Decentralized Economies," *Review of Economic Studies*, October 1995, 62, pp. 541-555.

Qian, Yingyi, and Chenggang Xu, "Innovation and Bureaucracy under Soft and Hard Budget Constraints," *Review of Economic Studies*, January 1998, 65(1), pp. 151-164.

B. Theory of Government Ownership and Privatization

Sappington, David, and Joseph Stiglitz, "Privatization, Information, and Incentives," *Journal of Policy Analysis and Management*, 6:567-582, 1987.

Schmidt, Klaus, "The Costs and Benefits of Privatization: An Incomplete Contracts Approach," *Journal of Law, Economics, and Organization*, 12(1):1-24, 1996.

Shleifer, Andrei and Robert W. Vishny, "Politicians and Firms," *Quarterly Journal of Economics*, November 1994, 109(4), pp. 995-1025.

Hart, Oliver, Andrei Shleifer, and Robert W. Vishny, "The Proper Scope of Government: Theory and an Application to Prisons." *Quarterly Journal of Economics*, November 1997, 112(4), pp. 1127-1161.

Che, Jiahua, and Yingyi Qian, "Institutional Environment, Community Government, and Corporate Governance: Understanding China's Township-Village Enterprises," *Journal of Law, Economics, and Organization*, April 1998, 14(1), pp. 1-23.

Che, Jiahua, and Yingyi Qian, "Insecure Property Rights and Government Ownership of Firms," *Quarterly*

Journal of Economics, May 1998, 113(2), pp. 467-496.

Jin, Hehui, and Yingyi Qian, "Public vs. Private Ownership of Firms: Evidence from Rural China," *Quarterly Journal of Economics*, August 1998, 113(3), pp. 773-808.

C. Corporate Governance

Berle, Adolf A. and Gardiner Means, *The Modern Corporation and Private Property*, New York: MacMillan, Co. 1933.

Jensen, Michael, and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics*, 5, 1976.

Jensen, Michael, and Eugene Fama, "Separation of Ownership and Control," *Journal of Law and Economics*, 26, 1983.

Demsetz, Harold, and Kenneth Lehn, "The Structure of Corporate Ownership: Causes and Consequences," *Journal of Political Economy*, 1985, 93(6), pp. 1155-77.

Shleifer, Andrei and Robert Vishny, "Large Shareholders and Corporate Control," *Journal of Political Economy*, June 1986, 94(3), pp. 461-488.

Shleifer, Andrei and Robert Vishny, "A Survey of Corporate Governance," *Journal of Finance*, June 1997, 52(2), pp. 737-83.

D. Entrepreneurs and New Firms

McMillan, John, and Christopher Woodruff, "The Central Role of Entrepreneurs in Transition Economies," *Journal of Economic Perspective*, Summer, 2002, 16(3), pp. 153-170.

Johnson, Simon; John McMillan, and Christopher Woodruff, "Entrepreneur and the Ordering of Institutional Reform," *Economics of Transition*, 2000.

Johnson, Simon; John McMillan, and Christopher Woodruff, "Property Rights and Finance," *American Economic Review*, December 2002, 92(5), pp. 1335-1356.

Djankov, Simeon, Edward Miguel, Yingyi Qian, Gérard Roland, and Ekaterina Zhuravskaya. "Who Are Russia's Entrepreneurs?" *Journal of the European Economic Association*, Papers and Proceedings, April-May 2005, 3(2-3), pp. 587-597.

Djankov, Simeon, Yingyi Qian, Gérard Roland, and Ekaterina Zhuravskaya. "Who Are China's Entrepreneurs?" *American Economic Review*, Papers and Proceedings, May 2006, forthcoming.

Djankov, Simeon, Yingyi Qian, Gérard Roland, and Ekaterina Zhuravskaya. "Entrepreneurship in China and Russia Compared." *Journal of the European Economic Association*, Papers and Proceedings, April-May 2006, forthcoming.

III. The State

A. Achieving Credible Commitment

North, Douglass, and Robert Thomas, *The Rise of the Western World: A New Economic History*, Cambridge University Press, 1973.

Greif, Avner, Paul Milgrom, and Barry R. Weingast, "Coordination, Commitment, and Enforcement: The Case of the Merchant Guild," *Journal of Political Economy*, 1994, 102(4), pp. 745-776.

Bai, Chong-En, David D. Li, Yingyi Qian, and Yijiang Wang, "Commitment, Incentives, and Information: The Case of Anonymous Banking," Working Paper, Department of Economics, University of California, Berkeley, 2004.

B. Corruption

Bardhan, Pranab. "Corruption and Development: A Review of Issues." *Journal of Economic Literature*, September 1997, 35, pp. 1320-46.

Shleifer, Andrei, and Robert Vishny, "Corruption," *Quarterly Journal of Economics*, August 1993, 108(3), pp. 599-617.

Shleifer, Andrei and Robert Vishny, "Pervasive Shortages under Socialism," *RAND Journal of Economics*, Summer, 1992, 23(2), pp. 237-246.

C. Decentralization and Federalism

Weingast, Barry R., "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Growth," *Journal of Law, Economics, and Organization*, 1995, 11, pp. 1-31.

Qian, Yingyi, and Barry R. Weingast, "Federalism as a Commitment to Market Incentives," *Journal of Economic Perspectives*, Fall, 1997, 11(4), pp. 83-92.

Qian, Yingyi, and Gerard Roland, "Federalism and the Soft Budget Constraint," *American Economic Review*, December 1998, 88(5), pp. 1143-1162.

Zhuravskaya, Ekaterina, "Incentives to Provide Local Public Goods: Fiscal Federalism, Russian Style," *Journal of Public Economics*, 2000, 76, pp. 337-368.

Jin, Hehui, Yingyi Qian, and Barry Weingast, "Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style," *Journal of Public Economics*, September 2005, 89(9-10), pp. 1719-1742.

Li, Hongbin, and Li-An Zhou, "Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China." *Journal of Public Economics*, September 2005, 89(9-10), pp. 1743-1762.