

Economic Policy and Institutional Change: Theory and Evidence from OECD countries

DEFAP lectures

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COURSE AIMS

The primary focus of this course is on the set of economic and fiscal institutions operating in OECD countries. Particular attention will be paid to contracting institutions governing the functioning of the labor market (e.g. employment protection, collective bargaining) and the product markets (e.g. regulations that determine the fixed cost of entry for new firms). During the lectures, we will ask the following questions: What are the main factors driving the formation of institutions, and institutional change? How do institutions evolve in developed economies? What inefficiencies does institutional change address?

COURSE CONTENT

The course will cover four topics.

Topic 1: The Role of Institutions in Developed Economies. This topic sets out the benchmark, by proposing classifications of institutions, discussing the “pros and cons” of regulatory institutions in developed economies from a social welfare perspective. We will also discuss some measurement issues associated with the cross-country and time series dimension of institutional variation in developed economies.

Topic 2: Institutional design: the Political Process and Social Preferences. This topic will describe how political economy forces may affect the design of institutions and the incentives to institutional reforms in developed countries. We will primarily build on the insight coming from political economy models of institutions. We will then discuss the role of social preferences. We will see how preferences may create a social demand for institutions, and discuss to what extent institutional changes can be traced back to an evolution of the underlying preferences.

Topic 3: Institutional persistence: the role of Culture. This topic investigates the existence of a relationship between culture and institutions. We will first provide a definition of “culture”, and discuss its measurement to the purpose of economic analysis. We will then present the main cultural traits identified by the cultural economics literature, and discuss their relationship with important institutional features: culture and institutions are characterized by a two-way relationship, which determines the persistence of an institutional setting in the long-run.

Topic 4: Institutional Design and Economic Policy in an International Setting: Globalization and Competition. This topic will analyze the relationship between institutional change and economic policy in an open economy setting. We will build upon the insight coming from international trade, tax and regulation competition to investigate how ongoing globalization is shaping the design of institutions in OECD countries.

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