

***Addis Ababa University***  
Interdisciplinary Doctoral Program in Law  
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Course Website:

<http://netdrive.montclair.edu/~lebelp/PSC643IntPolEcon.html>

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**PSC 643 International Political Economy**

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This course provide a contemporary foundation in economic analysis for students enrolled in the interdisciplinary doctoral program in law. In a globalizing economy, crafting and implementing legal standards is an important step to sustainable development. Whether focused in a purely domestic setting to the fields of contract law, criminal law, civil codes or the like, countries participating in the global economy generally do so with some reference to the context of prevailing and evolving international standards. As such, legal decisions enable a country to take stock of traditional norms and to devise a suitable blend with international standards that permit a country to take full advantage of the range of economic opportunities that globalization makes possible.

Legal standards, and the training of members of the legal profession in their adoption and implementation, do not alone provide a guarantee that successful globalization can succeed. Indeed, what is essential to such training is a fuller understanding of the larger context in which such legal standards are crafted. To do so, this course addresses the economic context of legal institutions, namely, how institutions and policies are shaped by economic factors, and in turn, how policies are crafted in response to such factors.

This course presumes that students already have at least a rudimentary understanding of economic concepts. However, it is not shaped by the traditional mathematical and econometric contours of more typical graduate programs economic analysis. Instead, emphasis is given to how basic economic concepts apply to the framework of the legal process, and in which any quantitative tools are given precise and readily understandable definitions.

What ties these concepts together is the role of risk in the context of economic decisions, and how institutions adopt mechanisms to manage them consistent with underlying notions of efficiency and equity in the allocation of scarce resources. Indeed, it is fair to say that as globalization proceeds, how countries adopt responses to the presence of risk will shape the nature of legal and economic institutions, and the policies that derive from them. How and why some succeed while others do not forms the basis of the topics to be examined.

The conduct of the course is based on the notion of a typical semester of study as to the breadth and length of topics covered. Given that students will study under designated tutors for the greater part of the course and that the instructor will be engaged in an intensive two-week intervention in the last part of the course, assignments and materials to be covered will utilize the internet to the greatest extent possible. As such, a website for the course has been created that lists all of the materials to be covered. The URL for the course is listed above in this document.

Topics covered in this course can be summarized under several discrete themes listed below. Wherever possible, electronic versions of documents will be posted on the website for use by students, their respective tutor(s) as well as by the instructor. Document formats include: Adobe Acrobat portable document format, i.e., pdf, Excel spreadsheet files, i.e., .xls, and Excel PowerPoint, i.e., ppt.

Evaluation of students in the course will be based on a series of presentations to be made to the respective tutor, as well as to the instructor. Evaluation weights are given in this document, a copy of which also is posted on the website.

## **PSC 643 International Political Economy Course Materials**

Each class session is organized along a given theme. Documents and datasets provide the basis for discussion questions to be answered by students, based on guidance by the course tutor.

### **I. The Range and Scope of International Political Economy**

#### **1. The Economic Context of International Political Economy I**

##### **A. Documents**

1. The UNDP Human Development Index (HDI) and Economic Development – [UNDPHDI2006](#)
2. Kay, John (2002), "[Pitfalls of Rationality](#)," *Financial Times*, August 20, 2002.
3. Makin, John H. (2007), "[Why do Financial Firms Take Too Much Risk?](#)" AEI Policy Brief, (December).
4. Honda, Jiro (2008), "[Do IMF Programs Improve Governance?](#)" Working Paper/08/114. (Washington, D.C.: IMF, May).
5. White, Lawrence (2008). "[The Growing Influence of Economics and Economists on Antitrust: An Extended Discussion](#)," Brookings Institution-AEI Reg-Markets Center, Working paper 08-05. (Washington, D.C.: Brookings Institution, February).
6. McCormack, David (2005). "[Recolonizing Africa](#)," *The Wall Street Journal*, August 31, 2005.
7. Faris, Steve, "[Starbucks vs. Ethiopia](#)", *Fortune* magazine, February 26, 2007.
8. LeBel, P. (2006). "[Managing Risk in Africa through Institutional Reform](#)", a summary profile.

##### **B. Datasets and Application Modules**

1. [Economic Analysis](#) – an overview of economic analysis, with implications for the role of policy institutions and the rule of law.
2. [Economic Functions of the Public Sector I](#) – a. Establishing and supporting a legal and institutional framework for economic decisions; b. Promoting competition in support of economic efficiency.
3. [The Measurement of Risk](#) – Risk exists in economic, financial, environmental, and political forms. Risk can be viewed as the dispersion of probable events around a given mean – absolute

risk is measured in terms of the standard deviation of a distribution, while relative risk is measured in terms of the coefficient of variation (the standard deviation divided by the mean). As individuals have varying degrees of risk aversion, how public policies shape the level and distribution of risk has a direct impact on the level of growth and development in an economy.

4. [Geographic Composition of Global GDP](#) – Differential rates of growth are constantly redefining the relative contribution of geographic regions to global output, or global GDP. How countries implement policies affecting the level of risk bears directly on these differential rates of growth and development.
5. [Ethiopia Profile](#) – a brief summary of general characteristics of Ethiopia's economy and governance.

### **C. Discussion Questions**

1. What does the HDI tell us about national income accounts and individual well-being?
2. Should multiple criteria for development be used in defining economically rational choices – why or why not?
3. What do markets tell us how economic decisions may be made in the presence of risk? How important are individual psychology and cultural values to the shaping of attitudes toward risk and the notion of rationality in economic decisions?
4. How does the assignment of legal responsibility affect the decision to respond to the presence of financial, economic, environmental, and political risk?
5. How do various forms of business organization determine the allocation of risk between buyers and sellers?
6. How would unlimited liability of corporations affect the decision to undertake economic and financial risk?
7. What do we mean by economic competition, what does competition have to do with economic efficiency, and how do such legal institutions such as antitrust affect the degree of efficiency?
8. What is the relationship between competition and risk and do measures to promote competition reduce or increase the level of risk to consumers and producers?
9. In what way(s) does public ownership reduce or increase the level of risk to consumers and producers?

## 2. The Economic Context of International Political Economy II

### A. Documents

1. Debrun, Xavier, Jean Pisani-Ferry and André Sapir (2008), "[Government Size and Output Volatility](#)," IMF Working Paper WP/08/122. (Washington, D.C.: IMF, May).
2. Summers, Lawrence (2008), "[A Strategy to Promote Successful Globalization](#)," *Financial Times*, May 4, 2008.
3. Kambhu, John, Til Shuermann, and Kevin J. Stiroh (2007), "[Hedge Funds, Financial Intermediation, and Systemic Risk](#)", Staff Report no. 291. (New York: Federal Reserve Bank of New York, July).
4. Wang, Yan and Yudong Yao (2001). "[Measuring Economic Downside Risk and Severity: Growth at Risk](#)," Working Paper 2674. (Washington, D.C.: The World Bank).
5. Lindsey, Brink (2003), "[Grounds for Complaint? Understanding the "Coffee Crisis"](#)", Occasional Paper. (Washington, D.C.: The Cato Institute).
6. LeBel, P. (1998), "[Understanding East Asia's Financial Crisis – Insights from Agency Theory](#)," Proceedings of the Second International Conference on Global Business and Economic Development, Chennai, India, August 8-12, 1998.
7. Leggett, Karby (2005). "[China Flexes Economic Muscle Throughout Burgeoning Africa](#)," *The Wall Street Journal*, March 29, 2005.

### B. Datasets and Application Modules

1. [Economic Functions of the Public Sector II](#) – c. Foster economic stabilization and economic growth; d. Promote distributive economic justice; 5. Reallocate resources to promote the efficient composition of production.
2. [Growth and Development](#) – growth and development depends on both a country's saving and investment rate, but also on the efficiency with which investment is made. Risk bears on this question, and becomes even more complex in the presence of international trade.
3. [Africa Development Indicators](#) – a dataset that tracks key indicators of economic development in Africa.
4. [Origins of Comparative Advantage](#) – The doctrine of comparative advantage drives all key WTO negotiations.

5. [Regional Patterns of International Trade](#) – Trade is a major driver of per capita income. Whether the gains from trade are distributed equiproportionately depends on the institutions that govern trading choices, and which thus shape the profile of geographic regions.
6. [Economic Freedom and Corruption](#) – Corruption arises in the absence of well-defined property rights and when government agencies limit various forms of economic freedom, e.g. to start a business, to expand a business in international trade, to acquire dependable sources of investment credit, and the independence of economic decisions from political interference.
7. [The Misery Index](#) – an indication of the twin variables – inflation and unemployment rates involved in macroeconomic stabilization of a country's Gross Domestic Product (GDP)
8. [Economic Turbulence](#) – a profile of the dynamics of the sub-prime housing market and implications for global stability and growth.
9. [Asset Bubbles](#) – Equities and primary commodities are subject to asset bubble pricing behavior, as can be seen in this dataset on the U.S. stock market over the past 100 years.
10. [On Economic Predictions](#) – Economic models form the basis of economic analysis and policy choices, and they are no better or worse than the statistical history on which they are constructed.

### **C. Discussion Questions**

1. What are automatic stabilizers, and how does economic stabilization affect the level of risk in an economy?
2. How can monetary and fiscal policy be used to achieve economic stabilization?
3. What is the relationship between economic freedom and corruption and how do legal institutions bear on the level of corruption and development?
4. What are asset bubbles and how do they bear on the use of monetary and fiscal policy?
5. How does international trade affect a country's foreign exchange rate and to what extent is the exchange rate influenced by domestic and international monetary and fiscal policy?

6. What factors determine the pricing of a commodity such as coffee and what policy alternatives exist that can affect earnings of producers?
7. How does commodity stabilization affect the presence of asset bubbles in international trade?
8. Can economic models predict asset bubbles and if so, what options do they provide?

### **3. Income Distribution And the Choice of Tools in Relation to Economic Growth and Development.**

#### **A. Documents**

1. Gradstein, Mark, Branko Milanovic, and Yvonne Ying (2000). "[Democracy and Income Inequality: An Empirical Analysis](#)," Working Paper 2561. (Washington, D.C.: The World Bank).
2. Aghion, Philippe, Evo Caroli, and Cecilia Garcia-Penalosa (1999), "[Inequality and Economic Growth: the Perspective of the New Growth Theories](#)," *Journal of Economic Literature*, 37-4 (December), 1615-1660.
3. LeBel, P. (2008, 2007), "[The Role of Creative Innovation in Economic Growth: Some International Comparisons](#)," *Journal of Asian Economics*, forthcoming.
4. LeBel, P. (2004). "[Assessing the Role of Risk in Growth and Development: Evidence from Latin American, African, and Asian Countries](#)," Proceedings of the Eighth International Conference on Global Business and Economic Development, Guadalajara, Mexico, January 7-10, 2004.
5. LeBel, P. (2003), "[Risk in Globalization: A Comparative Analysis of African and Asian Countries](#)," Proceedings of the Seventh International Conference on Global Business and Economic Development, Bangkok, Thailand, (January 7-10, 2003).
6. Atkinson, Anthony B. (1987). "[On the Measurement of Poverty](#)," *Econometrica* 55:4 (July), 749-764.
7. Bowles, Samuel S. and Herbert Gintis (2002). "[The Inheritance of Inequality](#)," *Journal of Economic Perspectives* 16:3 (Summer), 3-30.

#### **B. Datasets and Application Modules**

1. [The Gini Inequality Model](#) – Income distribution is usually measured in terms of the Gini coefficient of inequality. This

file provides a sample and a proxy measure of the Gini coefficient as used in standard international comparisons.

2. [Income Distribution and Social Welfare](#) – This case study illustrates how various welfare criteria can be applied to the distribution of income, based on various tax and redistributive spending choices.
3. [Engel Curves and the Income Elasticity of Demand](#) – Engel curves portray the relationship between the share of income devoted to the purchase of a good and the level of income when prices are held constant. It is an important benchmark in deriving measures to address both income distribution and poverty.
4. [Income Distribution and the Marginal Utility of Income](#) – Measures to redistribute income depend in part on the underlying marginal utility of income across individuals and household units. The Generosity Index provides a proxy method for examining whether the marginal utility is rising, falling, or constant, and provides a way to link income distribution to democratic preferences.
5. [Atkinson Inequality](#) – Anthony Atkinson's measure of income inequality incorporates attitudes toward risk aversion and is a useful way of looking at various measures to affect the distribution of income.
6. [Agricultural Subsidies](#) – Agricultural subsidies have major effects on the distribution of income. In the presence of rising relative prices, they may worsen rather than improve the level of social welfare, whether that be measured in terms of developed producer countries or developing recipient countries.

### **C. Discussion Questions**

1. What is the difference between the distribution of income and the level of poverty in an economy?
2. How do Engel curves enable one to track measures to relate the distribution of income to the level of poverty in an economy?
3. What is the optimal role of the public sector in determining the distribution of income and to what extent does this depend on perceptions and attitudes toward risk?



4. How can markets enable one to examine the likely effects of alternative public policies toward the distribution of income and poverty?
5. Does international aid in general and food aid in particular provide long-term solutions to the question of food adequacy in an economy, in particular in relation to the effects on domestic supply and the domestic rate of saving and investment in an economy?

#### **4. Market Failure and the Optimal Composition of Goods and Services I – Negative Externalities**

##### **A. Documents**

1. Bator, Francis (1958), "[Anatomy of Market Failure](#)," *Quarterly Journal of Economics*, 72:3 (August), 351-379.
2. Coase, Ronald (1960), "[The Problem of Social Cost](#)," *Journal of Law and Economics*, (October), 1-25.
3. Acemoglu, Daron and Thierry Verdier (2000). "[The Choice Between Market Failures and Corruption](#)," *American Economic Review*, 90:1 (March), 194-211.
4. Arrow, Kenneth J. (1969). "[The Organization of Economic Activity: Issues Pertinent to the Choice of Market versus Non-Market Activity](#)," Congressional Testimony on Economic Policy, 1969.
5. Datta-Chaudhuri, Mrinal (1990). "[Market Failure and Government Failure](#)," *Journal of Economic Perspectives*, 4:3 (Summer), 25-39.
6. Duggan, John and Joanne Roberts (2002). "[Implementing the Efficient Allocation of Pollution](#)," *American Economic Review*, 92:4 (September), 1070-1078.
7. LeBel, P. (1999). "[Measuring Economic Sustainability in Africa](#)," *Scandinavian Journal of Development Alternatives*, 18: 2-3 (June-September), 265-282.
8. Ramsey, Frank P. (1927). "[A Contribution to the Theory of Taxation](#)," *Economic Journal* 37:145 (March), 47-61.
9. Mitra, Pradeep and Nicholas Stern (2003). "[Tax Systems in Transition](#)," Working Paper 2947. (Washington, D.C.: The World Bank).

##### **B. Datasets and Application Modules**

1. [Excise Tax Criteria](#) – an application module that defines and illustrates criteria for the selection of a given rate.

2. [Optimal Excise Taxation](#) – a simulation model that enables one to apply acceptable limits in the derivation of an excise tax to achieve a given level of targeted revenue.
3. [Optimal Externality Management](#) – a simulation model that takes into account the measurement of costs and benefits from public intervention in health services.
4. [Energy Resources](#) – a dataset that provides a time-series overview of global energy balances and which provides a background to the current energy market.
5. [Optimal Pricing of Exhaustible Natural Resources](#) – a simulation model that enables one to examine the effects of alternative discount rates, time horizons, and technical change on the allocation of a finite exhaustible resource.
6. [Optimal Pricing of Biodiverse Natural Resources](#) – a simulation model that illustrates the corresponding shadow prices to achieve a targeted level of biodiversity
7. [Tracking Environmental Sustainability in Africa](#) – a dataset that provides some broad indicators of environmental sustainability.

### **C. Discussion Questions**

1. In what sense(s) can one consider that markets "fail" to achieve a given level of economic efficiency?
2. Does the presence of market failure and incomplete markets automatically justify public sector intervention? How so or not?
3. What is the relationship between market failures and corruption and how does it shape the choice of public vs. private sector allocation of resources?
4. How can we define environmental pollution and to what extent can it be managed through the use of economic incentives?
5. What is meant by optimal taxation and what does it suggest in terms of the optimal mix of public and private sector allocation of scarce resources?

## **5. Market Failure and the Optimal Composition of Goods and Services II – Positive Externalities**

## A. Documents

1. Psacharopoulos, George and Harry Anthony Patrinos (2002). "[Returns to Investment in Education: A Further Update](#)," Working Paper 2881. (Washington, D.C.: The World Bank).
2. Tiebout, Charles (1956). "[A Pure Theory of Local Expenditures](#)," *Journal of Political Economy* 64:5 (October), 416-424.
3. Stiglitz, Joseph (1998). "[The Private Uses of Public Interests: Incentives and Institutions](#)," *Journal of Economic Perspectives*, 12:2 (Spring), 3-22).
4. LeBel, P. (2005, 2002). "[Optimal Pricing of Biodiverse Natural Resources for Sustainable Economic Growth](#)," *Journal of Development Alternatives*, 24:1-2 (March-June), 5-38.
5. LeBel, P. (2000). "[Optimal Internet Pricing](#)," Proceedings of the Third International Conference on Global Business and Economic Development, Beijing, China, June 21-24, 2000.
6. LeBel, P. (1999). "[Higher Education Reform Criteria](#)," Proceedings of the 2<sup>nd</sup> Annual Conference on Global Business and Economic Development,
7. LeBel, P. (1992). "[Economic choices for Educational Policy in Africa](#)," *Journal of African Finance and Economic Development*, 1:1 (Spring), 135-164.

## B. Datasets and Application Modules

1. [Educational Forecasting Model](#) – a simulation model that incorporates data on promotion, repeater, dropout, and graduation rates to project alternative educational enrollments and flows to the labor market, and in which one can derive the corresponding basis for estimating the internal rate of return to investment in the given level of education.
2. [Education and Income](#) – a dataset that provides some international comparisons of educational achievement and income levels.
3. [International Health Care](#) – a dataset that provides some international comparisons of health care and life expectancy, from which optimal levels of expenditures may be derived based on the international efficiency of health care systems.
4. [Pension Systems](#) – a simulation model that provides life cycle comparisons of pay as you go public funding with private

retirement accounts, and which provides a basis for examining the linkage between attitudes toward risk and the funding of retirement systems.

5. [HIV/AIDS Rates in Sub-Saharan Africa](#) – a dataset that tracks the characteristics of HIV/AIDS infections in Africa.

### **C. Discussion Questions**

1. How can education and health care be considered as "quasi-public" goods in which some measure of public support can be economically justified?
2. What criteria can be applied to the determination of a given level of educational enrollments in an economy?
3. What is the opportunity cost of public support of education and health in the economy?
4. How should the public share of education and health be financed and how does this relate to the concept of economic sustainability?
5. What criteria can be applied to the determination of alternative retirement systems in terms of the mix of public and private finance, the given level of risk, and perceptions of such risk across the population?

## **II. Static and Dynamic Considerations in International Political Economy**

### **6. The Economic Basis of Political Legitimacy and the Rule of Law**

#### **A. Documents**

1. Downs, Anthony (1957). "[An Economic Theory of Political Action in a Democracy](#)," *Journal of Political Economy*, 65:2 (April), 135-150.
2. Seymour Martin Lipset (1959), "[Some Social Requisites of Democracy: Economic Development and Political Legitimacy](#)," *The American Political Science Review*, 53:1 (March), 69-105.
3. Haber, Stephen, Douglass C. North, and Barry R. Weingast (2003), "[If Economists Are So Smart, Why Is Africa So Poor?](#)" *The Wall Street Journal*, July 30, 2003.
4. Birkeland, Kathryn and Edward C. Prescott (2007). "[On the Needed Quantity of Government Debt](#)," *Federal Reserve*

*Bank of Minneapolis Quarterly Review*, 31:1 (November), 2-15.

5. LeBel, P. (2008), "[Managing Risk in Africa Through Institutional Reform](#)," *Atlantic Economic Journal*, (June), 1-17.
6. LeBel, P. (2001). "[The Role of Risk in the Choice of Optimal State-Market Relations](#)," Proceedings of the 6<sup>th</sup> International Conference on Global Business and Economic Development, Bratislava, Slovakia, November 7-10, 2001.

## **B. Datasets and Application Modules**

1. [Political Balkanization](#) – a dataset illustrating the evolution of membership in the United Nations with reference to existing voting rights.
2. [Point Voting Systems](#) – an application module illustrating various voting schemes in reference to democratic norms, with implications for political legitimacy.
3. [Political Legitimacy](#) – a dataset used to examine the majoritarian outcomes of U.S. presidential elections since 1824, with varying weights attached to the voter participation rate, the popular outcome margin and the electoral college margin.
4. [Global Conflicts 1946 to 2001](#) – a World Bank dataset that tracks conflicts throughout the globe.

## **C. Discussion Questions**

1. How can we define political legitimacy and what are the economic prerequisites essential to its realization?
2. How does the level and distribution of risk affect the choice of state-market roles in the allocation of scarce resources and in what way(s) does it affect the level of political legitimacy?
3. Is there an optimal level of government debt that is consistent with optimal political legitimacy? What information would be needed to derive a policy framework to link optimal government debt to political legitimacy?
4. What relationship(s) exist between the type of political regime and the extent of international armed conflicts, and to what extent does the extension of democratic institutions expand economic growth and development?

## 7. Centralization and Decentralization of Economic and Political Institutions in the Context of Globalization

### A. Documents

1. Fisman, Raymond and Roberta Gatti (2000). "[Decentralization and Corruption: Evidence Across Countries](#)," Working Paper 2990. (Washington, D.C.: The World Bank).
2. Poole, William (2007). "[The GSEs: Where Do We Stand?](#)" *Federal Reserve Bank of St. Louis Review*, (May-June), 143-152.
3. Krueger, Alan B. and Michael Lindahl (2001). "[Education for Growth: Why and For Whom?](#)", *Journal of Economic Literature*, 39:4 (December), 1101-1136.
4. LeBel, P. (1998). "[East Asia's Economic Reforms](#)," Proceedings of the 4<sup>th</sup> International Conference on Global Business and Economic Development, August 8-10, 1998, Chennai, India.
5. LeBel, P. (1997), "[China's Economic Reforms](#)," Proceedings of the 1st International Conference on Global Business and Economic Development, June 7-10, 1997, Beijing, China.
6. Thurow, Roger, and Scott Kilman (2002). "[U.S. Subsidies Create Cotton Glut That Hurts Foreign Cotton Farms](#)," *The Wall Street Journal*, June 26, 2002.
7. Swaray, Raymond B. (2002). "[Volatility of Primary Commodity Prices: Some Evidence from Agricultural Exports in Sub-Saharan Africa](#)," Department of Economics and Related Studies, University of York, U.K., Discussion Paper no. 6.
8. Fisman, Raymond and Jacob Svensson (2000). "[Are Corruption and Taxation Really Harmful to Growth? Firm Level Evidence](#)." Working Paper 2485. (Washington, D.C.: The World Bank).

### B. Datasets and Application Modules

1. [IMF Ethiopia Statistical Annex](#) (2007). (Washington, D.C.: IMF)
2. [Ranking Corruption and Economic Development](#) – a dataset that draws on the corruption perceptions index, but which does not sort out the underlying cause and effect

relationships, for which countries below and above the trend line suggest analytical points of departure.

3. [IMF Primary Commodity Price Indices](#) – a dataset prepared by the IMF that tracks the index of primary commodity prices in various commodities.

### C. Discussion Questions

1. Does political decentralization affect the level of political legitimacy, and if so, in what way(s)?
2. How does political decentralization affect the level of accountability and transparency in the management of public sector resources?
3. Is there an optimal level of political decentralization consistent with an optimal rate of growth and development, and if so, what are the principle determinants of the composition of devolved political power across various levels?
- 4.

## 8. The Economics of Property Rights in Traditional and Modern Society and the Role of International Economic Institutions

### A. Documents

1. Ellerman, David (2002). "[Introduction to Property Theory: The Fundamental Theorems](#)," Working Paper 2692. (Washington, D.C.: The World Bank).
2. Kiken, Suni and John Nellis (2002). "[Privatization in Competitive Sectors: The Record to Date](#)," Working paper 2860. (Washington, D.C.: The World Bank).
3. Claessens, Stijn and Luc Laeven (2001). "[Financial Development, Property Rights, and Growth](#)," Working Paper. (Washington, D.C.: The World Bank).
4. Sarris, Alexander (2002). "[The Demand for Commodity Insurance by Developing Country Agricultural Producers: Theory and an Application to Cocoa in Ghana](#)," Working Paper 2887. (Washington, D.C.: The World Bank).
5. Bate, Roger (2005). "[Zimbabwe and Property Rights](#)," AEI Brief. (Washington, D.C.: March 31, 2005).
6. Bate, Roger (2005). "[Africa's Pol Pot](#)". AEI Brief
7. Abdih, Yasser, Ralph Chami, Jihad Dagher, and Peter Monteil (2008), "[Remittances and Institutions: Are](#)

- [Remittances a Cure?](#)", IMF working Paper WP/08/29. (Washington, D.C.: IMF, February)
8. Feldstein, Martin and Elena Rangelova (2001). "[Individual Risk an an Investment-Based Social Security System](#)," *American Economic Review*, 91:4 (September), 1116-1125.
  9. Lindbeck, Assar (1997). "[The Swedish Experiment](#)," *Journal of Economic Literature*, 35:3 (September), 1293-1319.
  10. Schlee, Edward E. (2001). "[The Value of Information in Efficient Risk-Sharing Arrangements](#)," *American Economic Review*, 91:3 (June), 509-524.
  11. Elias Meseret, "[Ethiopia Commodity Exchange Market Officially Launched](#)," *Ethiopian Reporter*, April 5, 2008.
  12. Jenkins, Holman W., Jr. (2007). "[Risk Manager](#)", *The Wall Street Journal*, March 3, 2007.

## **B. Datasets and Application Modules**

1. [The Global Democracy Index](#) – an index of global democracy based on a broad sample of states that combines data on the frequency of elections, voter participation rates, and comparable indicators.
2. [Regional Democracy Index Trends](#) – a dataset of regional democracy trends based on a broad sample of states that combines data on the frequency of elections, voter participatoin rates, and comparable indicators.
3. [The Database of Political Institutions](#) – a summary report by a World Bank group led by Thorsten Beck, George Clarke, Alberto Groff, Philip Keefer, and Patrick Walsh that has been used in a number of empirical studies.

## **C. Discussion Questions**

1. What are the legal pre-requisites for sustainable property rights and what are the implications for economic and judicial reforms?
2. How do property rights affect the level of democratic institutions, particularly in terms of accountability and transparency in economic and political transactions?
3. What measures are appropriate to reinforce property rights in support of sustainable development?



## 9. Economic Choices for Environmental Sustainability in A Globalizing Economy

### A. Documents

1. Jacoby, Hanan G., Rinku Murgai, and Saeed Ur Rehman (2001). "[Monopoly Power and Distribution in Fragmented Markets: The Case of Groundwater](#)," Working Paper 2628. (Washington, D.C.: The World Bank).
2. Estache, Antonio and Eugene Kouassi (2002). "[Sector Organization, Governance, and the Inefficiency of African Water Utilities](#)," Working Paper 2890. (Washington, D.C.: The World Bank).
3. White, Lawrence J. (2006). "[The Fishery as a Watery Commons: Lessons from the Experiences of other Public Policy Areas for U.S. Fisheries Policy](#)," Related Publication 06-36. (Washington, D.C.: AEI-Brookings Center).
4. Varangis, Panos, Donald Larwon, and Jock R. Anderson (2002). "[Agricultural Markets and Risks: Management of the Latter, not the Former](#)," Working Paper. (Washington, D.C.: The World Bank, February).
5. Kremer, Michael (2000), "[Elephants](#)," *American Economic Review*, 90:1 (March), 212-234.
6. Hahn, Robert W. (2008). "[Greenhouse Gas Auctions and Taxes: Some Practical Considerations](#)," AEI Center for Regulatory and Market Studies, Working Paper 08-12.
7. Bayon, Ricardo (2002), "[A Bull Market in...Making Money in Environmental Derivatives](#)", *The Milken Institute Review*, 2002, Q1, 30-39.
8. Deininger, Klaus, Songqing Jin, Berhanu Adenew, Samuel Gebre-Selassie, and Berhanu Nega (2001). "[Tenure Security and Land-Related Investment: Evidence from Ethiopia](#)," Working Paper 2991. (Washington, D.C.: The World Bank).
9. Bjorn Lomborg (2006). "[Stern Review: The Dodgy Numbers Behind the Latest Warming Scare](#)," *The Wall Street Journal*, November 2, 2006.

### B. Datasets and Application Modules

1. [Safe Water Access Rate Trend in Africa](#) – the trend is up, despite periodic drought and famine.

2. [Forest area in Africa](#) – the trend is down, as population growth places greater pressure on natural resources.
3. [Drought Incidence Trends in Africa](#) – variable with no clear trend, despite threats of global warming.
4. [Africa Cereal Crop Yield Trend](#) – upward, but may not be sufficient to offset population growth, thus increasing import dependency in the presence of weather uncertainty.
5. [Crude Oil Prices](#) – a review of changes in the current and real price of crude oil throughout the world from 1869 to 2007.
6. [U.S. Proven Crude Oil Reserves](#) - The U.S. seems already in the peak-oil post-period, which may be a driver of global prices as China and India experience greater demand through accelerated growth and development.
7. The Stern Report on Global Warming (2006)  
Stern Review Part 1 – [Study Approach](#)  
Stern Review Part 2 – [Impacts on Growth and Development](#)  
Stern Review Part 3 – [Stabilization Economics](#)  
Stern Review Part 4 – [Policy Mitigation Responses](#)  
Stern Review Part 5 – [Policy Responses for Adaptation](#)  
Stern Review Part 6 – [International Collective Action](#)  
Stern Review Charts - [Stern Review Charts](#)
8. World Meteorological Organization, United Nations Environmental Programme, Intergovernmental Panel on Climate Change (IPCC). "[Climate Change 2007: Impacts, Adaptation and Vulnerability](#)" (Brussels, Belgium: IPCC Working Group II).
9. Jim Hansen (2006). [Data on Global Warming Trends](#). (Denver, Colorado: SOLAR).

### **C. Discussion Questions**

1. How is global warming affecting economic challenges and opportunities in Africa?
2. How should African countries manage scarce natural public resources such as wildlife and potable water supplies?
3. What pricing regimes may be needed to bring about a level of sustainable development as it bears on environmental standards?
4. In light of the incomplete adoption of the Kyoto Protocol of 1997, what alternatives could be applied consistent with

sustainable economic and environmental development for Africa and other regions of the world?

## 10. Legal Concepts and Economic Policy Choices in an International Economic Context

### A. Documents

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2. Beck, Thorsten, Asli Demirgüç-Kunt, and Ross Levine (2004). "[Law and Finance: Why Does Legal Origin Matter?](#)" Working Paper. (Washington, D.C.: The World Bank.)
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7. Herbst, Jeffrey (2002). "[State and Power in Africa](#)," review by James A. Robinson, *Journal of Economic Literature*, 40:2 (June), 510-519.
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10. Brainard, Lael, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle E. Smith (2003). "[The Other War: Global Poverty and the Millennium Challenge Account](#)," (Washington, D.C.: The Brookings Institution).

## **B. Datasets and Application Modules**

### **C. Discussion Questions**

1. How do legal institutions affirm economic realities and affirm an underlying sense of political legitimacy?
2. To what extent do differences in international taxation distort the efficient allocation of investment resources, and how should African states respond to achieve optimal rates of growth?
3. How do differences in public entitlements affect the demand for migration and to what extent does this distort the efficient allocation of resources?
4. How does the Millennium Challenge Account respond to the investment needs of Africa for the 21<sup>st</sup> century and does it pose a threat of moral hazard or an opportunity for domestic intermediation?

## **11. The Economics of Law in the Context of Globalization**

### **A. Documents**

1. Schleicher, David N. (2004). "[Politics as Markets' Reconsidered: Economic Theory, Competitive Democracy, and Primary Ballot Access](#)," Berkeley Electronic Press Legal Series paper 309.
2. Coughlin, Cletus K., Alec Chrystal, and Geoffrey E. Wood (1988). "[Protectionist Trade Policies: A Survey of Theory, Evidence and Rationale](#)," *Federal Reserve Bank of St. Louis Review* (January-February), 12-30.
3. The European Union (2003). "[Restructuring the Community Framework for the Taxation of Energy Products and Electricity](#)," *Official Journal of the European Union*, Council directive 2003/96/EC (27 October).
4. McGuire, Martin C. and Mancur Olson, Jr. (1996), "[The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force](#)," *Journal of Economic Literature*, 34:1 (March), 72-96.
5. Pauly, Mark V. (1986), "[Taxation, Health Insurance, and Market Failure in the Medical Economy](#)," *Journal of Economic Literature*, 24:2 (June), 629-675.

6. Kagan, Robert (2008), "[The Case for a League of Democracies](#)," *Financial Times*, May 13, 2008.
7. Kambhu, John, Til Schuermann, and Kevin J. Stroh (2003), "[Hedge Funds, Financial Intermediation, and Systemic Risk](#)," *Federal Reserve Bank of New York Policy Review*, (December), 1-18.
8. Collier, Paul and Anke Hoeffler (2002). "[Military Expenditure: Threats, Aid, and Arms Races](#)," Working Paper 2927. (Washington, D.C.: The World Bank, November).

## **B. Datasets and Application Modules**

### **C. Discussion Questions**

1. How do economic forces shape legal institutions and do they arbitrate process from outcome in a way consistent with economic efficiency?
2. To what extent should African states embrace both economic and political integration? Would integration reduce the costs of security and increase the rate of economic growth, based on the underlying examples of the European Union and the United States?
3. To what extent does globalization force a degree of homogeneity in local legal institutions and does this raise or reduce the local level of economic efficiency?

## **12. Initial Student Research Presentations on International Political Economy**

### **A. Student Oral Presentations**

### **B. Student Research Paper Drafts and Tutor Evaluations**

## **III. Policy Alternatives for Sustainable International Political Economy**

### **13. Economic Choices for Sustainable Growth and Development I**

#### **A. Documents**

1. Cull, Robert, Lemma W. Senbet, and Marco Sorge (2001). "[Deposit Insurance and Financial Development](#)," Working Paper 2682. (Washington, D.C.: The World Bank).
2. Hoekman, Bernard (2002). "[Strengthening the Global Trade Architecture for Development](#)," Working Paper 2757. (Washington, D.C.: The World Bank).

3. Alesina, Alberto and Roberto Perotti (1998), "[Economic Risk and Political Risk in Fiscal Unions](#)," *Economic Journal*, 108-449 (July), 989-1008.
4. Andreoni, James, Brian Erard, and Jonathan Feinstein (1998). "[Tax Compliance](#)," *Journal of Economic Literature*, 36:2 (June), 818-860.
5. Conlisk, John (1996). "[Why Bounded Rationality?](#)" *Journal of Economic Literature* XXIV:2 (June), 669-700.
6. Mark Scott (2008), "[Europe's Carbon-Trading Pioneers](#)," *Business Week*, April 28, 2008.
7. Guha, Krishna (2008), "[Fed Urged to Control Future Asset Bubbles](#)," *Financial Times*, May 16, 2008.
8. Congressional Budget Office (2005), "[The Effects of Liberalizing World Agricultural Trade: A Survey](#)", (Washington, D.C.: Congressional Budget Office, 2005).
9. Beattie, Alan, "[Making Hay](#)", *Financial Times*, May 14, 2008.
10. Devarajan, Shantayanan, William R. Easterley, and Howard Pack (2001). "[Is Investment in Africa Too Low or Too High? Macro and Micro Evidence](#)," Working Paper 2519. (Washington, D.C.: The World Bank)
11. Kaminsky, Graciela and Sergio Schmukler (2001). "[Emerging Markets Instability: Do Sovereign Ratings Affect country Risk and Stock Returns?](#)" Working Paper 2678. (Washington, D.C.: The World Bank, February).

## **B. Datasets and Application Modules**

1. [The Basic Option Pricing Model](#) – a simulation table that generates optimal option prices under alternative assumptions.
2. [Commodity Price Stabilization regimes](#) – a simulation module that provides alternative ways of framing commodity stabilization objectives.
3. [Cost Effectiveness](#) – a simulation module that illustrates the basic concepts underlying cost effectiveness analysis.

## **C. Discussion Questions**

1. Student Paper Revised Oral Presentations
2. How can markets craft institutions to manage risk?
3. How does the absence or presence of sovereign debt affect the degree of financial intermediation in an economy?

4. In what ways does the expansion of financial intermediation reduce capital outflows from developing economies and attract foreign direct investment (FDI)?

## 14. Economic Choices for Sustainable Growth and Development II

### A. Documents

1. Matoo, Aaditya, Devesh Roy, and Arvind Subramanian (2002). "[The Africa Growth and Opportunity Act and its Rules of Origin: Generosity Undermined?](#)" Working Paper 2908.pdf.
2. Beck, Thorsten, and Ian Webb (2001). "[Determinants of Life Insurance Consumption Across Countries](#)", Working paper. (Washington, D.C.: The World Bank).
3. Alesina, Alberto, Reza Baqir, and William Easterley (1999), "[Public Goods and Ethnic Divisions](#)," *Quarterly Journal of Economics* 114:4 (November), 1243-1284.
4. Arrow, Kenneth J. (1997), "[Invaluable Goods](#)," *Journal of Economic Literature* XXXV (June), 757-765.
5. Viscusi, W. Kip (1997). "[Alarmist Decisions with Divergent Risk Information](#)," *Economic Journal*, 107:445 (November), 1657-1670.
6. Humphreys, Macartan and Robert Bates (2002). "[Political Institutions and Economic Policies: Lessons from Africa](#)," CID Working Paper 94. (Cambridge, Mass.: Harvard University Center for International Development).
7. Bates, Robert H. (2005). "[Political Insecurity and State Failure in Contemporary Africa](#)," Working Paper 115. (Cambridge, Mass.: Harvard University Center for International Development).

### B. Datasets and Application Modules

1. [Efficient Portfolios](#) – a simulation model that illustrates the basic concepts behind mean-variance analysis used in optimal portfolio selection and maintenance.
2. [The Expected Default Frequency Model](#) – a simulation module that illustrates basic concepts in risk management.
3. [Economic Value Added](#) – a simulation module that illustrates how value added can be used in the selection of alternative investments.

4. [The Merton Risk Premium Model](#) – Robert Merton's variation on the option pricing model used to derive optimal pricing of various assets.
5. [Value at Risk \(VAR\) Models](#) – a simulation module used to estimate varying degrees of risk in the selection of optimal portfolios and individual projects.
6. [Working Capital Management](#) – a simulation module designed to illustrate the optimal choice of financing mode for a project.

### **C. Discussion Questions and Course Review**

1. Student Paper Revised Written Research Paper Submission
2. Reviews of individual student performance and assigned materials.



**Course Grading Standards:**

<b>1. Tutor Evaluations</b>	<b>25%</b>
a. In-class participation	10%
b. Initial student presentations	15%
<b>2. Instructor Evaluations</b>	<b>75%</b>
a. In-class participation	25%
b. Research paper evaluation	50%

**Electronic communications:** Wherever appropriate and feasible, students are encouraged to send email to the instructor regarding questions on topic content and requirements for completion of each stage of the course under direction of the tutor as well as the instructor. The instructor's email address is given at the top of this document.

## Bibliography

The titles below are common source materials for the topics covered in this course. These materials provide a conceptual framework to some of the assigned materials used in this course. While most of these materials are available only in print form, we list some that may be available in electronic form but which have not been assigned in the present iteration of the course.

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