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## **Economics of Governance I: Introduction** (33096/33097 – 3 SWS) **(Governanceökonomik I: Einführung)**

### **1. Objectives**

The main aim of this course is to demonstrate how fundamental and specific insights and methods from economics and related disciplines can be utilized for the design and the analysis of governance structures. Moreover, the course aims to enable students to (i) apply such insights and methods in order to independently analyse selected aspects of governance structures and to (ii) design well-founded selected parts of simple governance structures.

### **2. Intended Learning Outcomes**

At the end of this course students should

- have some basic understanding of how fundamental and specific insights and methods from economics and related disciplines can be utilized for the design and the analysis of governance structures,
- have some basic understanding of rational choice theory, behavioral decision-theory, non-cooperative and cooperative game theory and collective choice theory,
- be able to apply insights and methods from economics and related disciplines in order to independently analyse selected aspects of governance structures, and
- be able to design well-founded selected parts of simple governance structures.

### **3. Pre-requisites**

#### **3.1 Required**

- ‘Interaktive Einführung in das ökonomische Denken’ or
- ‘Einführung in die Volkswirtschaftslehre’ or
- an at least equivalent course to one of the above mentioned courses

#### **3.2 Recommended**

- Fallstudienseminar in englischer Sprache (‘Interactive Case-Study Seminar: Fundamentals of Decision Theory’)
- ‘Mikroökonomik I’

#### 4. Teaching and Learning Strategies

This is a classical lecture and tutorial course comprising of 12 lectures (90 minutes) and 5 tutorials (90 minutes). At the end of the course on demand an additional ‘Question & Answer’ session will be offered on Wednesday, 22 January 2019, 13:30-14:00 (Room: RW S 66). Lecture slides and the tutorials’ material will be made available on the e-learning server.

#### 5. Schedule

During the semester 12 lectures and 5 tutorials will be provided. These will take place as follows:

<i>Lecture/Tutorial</i>	<i>Day</i>	<i>Date</i>	<i>Time</i>	<i>Room</i>
01	Wednesday	16 Oct	12:15 – 13:45	RW S 62
02	Wednesday	23 Oct	12:15 – 13:45	RW S 62
03	Wednesday	30 Oct	12:15 – 13:45	RW S 62
04	Wednesday	30 Oct	14:15 – 15:45	RW S 58
05	Wednesday	06 Nov	12:15 – 13:45	RW S 62
06	Wednesday	20 Nov	12:15 – 13:45	RW S 62
07	Wednesday	27 Nov	12:15 – 13:45	RW S 62
08	Wednesday	04 Dec	12:15 – 13:45	RW S 62
09	Wednesday	04 Dec	14:15 – 15:45	RW S 58
11	Wednesday	11 Dec	12:15 – 13:45	RW S 62
12	Wednesday	11 Dec	14:15 – 15:45	RW S 58
13	Wednesday	08 Jan	12:15 – 13:45	RW S 62
14	Wednesday	08 Jan	14:15 – 15:45	RW S 58
15	Wednesday	15 Jan	12:15 – 13:45	RW S 62
16	Wednesday	15 Jan	14:15 – 15:45	RW S 58
17	Wednesday	22 Jan	12:00 – 13:30	RW S 66

#### 6. Assessment

Economics (BA) and IWE students & P&E (BA) students aiming for an accreditation under Module E6 or Ö6:

- One hour unseen written examination. If the total number of participating students for the written examination is less than five, an oral examination may replace the written one. (Students will be informed about the form of examination as soon as possible.)
- The date of the examination can be found on <https://www.bwl5.uni-bayreuth.de/de/studiendekan/Klausurtermine/>.
- Students have to register for the examination via CAMPUSonline. Only if students cannot register via CAMPUSonline they can register via e-mail by sending an e-mail to Feriha Esen: feriha.esen@uni-bayreuth.de. This e-mail must only contain the title of the course, the student’s surname, first name, ID number, and degree of study as well as a brief indication why registration via e-mail is required.
- The registration deadline is one week in advance to the date of the examination. Later registrations will not be accepted.

P&E (BA) students aiming for an accreditation as a 'V-Seminar' (2 LP):

- Instead of the one hour examination mentioned above students have to write a shorter examination ('Teilklausur'). Further details will be provided on request.

P&E (BA) students aiming for an accreditation as a 'V-Seminar' (8 LP):

- In addition to the one hour examination (or oral examination) mentioned above students have to write a short seminar paper ('Kleine Hausarbeit'). Further details will be provided on request.

## 7. Lecture Programme

### 1. Governance, Organizations, and Institutions

[4]: 33; [5]: 164, 171, 177 f.; [6]: 1-36; [7]: 62; [11]: 3; [12]: 1-15; [13]: 5 f.; [15]: 3-18; [18]: 5f., 12 f.; [21]: 21-23; [22]; [25]: 4-7; [28]: 12-20, 60-62; [44] (optional reading); [47] (optional reading); [49]: 1-3 (optional reading)

### 2. Theory and Empirical Evidence of Rational Decision-making

[1]: 5-42; [2]: 17-57; [3]: 9-14, 17-20; [10]: 509 f.; [18]: 240-242; [19]: 51-64, 79-87; [29]: 3-57 (optional reading), 103-143 (optional reading); [31] (optional reading); [36] (optional reading); [37] (optional reading); [38]: 3-51 (optional reading); [39] (optional reading); [41]: 11-31 (optional reading); [43]: 5-13 (optional reading); [45] (optional reading); [55] (optional reading); [57] (optional reading)

### 3. Non-cooperative Strategic Decision-making

[1]: 43-101; [2]: 58-98; [23]: 11-52; [30] (optional reading); [40]: 3-445 (optional reading)

### 4. Cooperative Strategic Decision-making

[2]: 99-120; [30] (optional reading); [53] (optional reading)

### 5. Collective Decision-making Mechanisms and Their Properties

[1]: 102-139; [2]: 121-137, 146-187; [8]; [9]: 3-11; [14]; [17]; [20]: 17-20, 52-57; [24]: 65-113 (optional reading); [26]; [27]: 1-35; [31] (optional reading); [32] (optional reading); [34] (optional reading); [35] (optional reading); [40]: 615-635 (optional reading); [41]: 275-297; [42] (optional reading); [48] (optional reading); [51]: 1-30 (optional reading), 55-127 (optional reading); [52] (optional reading); [56] (optional reading)

### 6. Manipulation of Collective Decision-making Mechanisms: Strategic Behavior and Agenda Control

[1]: 148-166; [2]: 139-145; [24]: 137-195; [27]: 98-103; [40]: 635-639 (optional reading); [54] (optional reading); [56] (optional reading)

### 7. Judgment Aggregation

[16]; [50] (optional reading)

**Note:** The numbers in brackets refer to numbers of the sources below and the relevant page numbers.

## 8. Literature

### 8.1 Required Core Reading

Concerning the core reading for the course there exists in some respect a choice between the two following books:

- [1] Nurmi, H (1998) *Rational Behaviour and the Design of Institutions: Concepts, Theories and Models*, Edward Elgar.
- [2] Nurmi, H (2006) *Models of Political Economy*, Routledge.

However, even though there is a significant overlap of the content of both books, making a choice for one of these books still implies that students will have to read selected pages of the other book.

### 8.2 Required Supplementary Reading

In addition to the core reading students will be required to read selected parts of the following sources:

- [3] Akerlof, GA and Kranton, RE (2010) *Identity Economics*, Princeton University Press.
- [4] Arrow, KJ (1974) *The Limits of Organization*, Norton.
- [5] Bates, FL and Harvey, CC (1975) *The Structure of Social Systems*, Gardner Press.
- [6] Bevir, M (2012) *Governance: A Very Short Introduction*, Oxford University Press.
- [7] Brink, R van den and Steffen, F (2008) Positional Power in Hierarchies, in: Braham, M and Steffen, F (eds), *Power, Freedom, and Voting*, Springer, 57-81.
- [8] Deemen, AMA van (1999), The Probability of the Paradox of Voting for Weak Preference Orderings, *Social Choice Welfare* 16:171–182.
- [9] Fishburn, PC (1973), *The Theory of Social Choice*, Princeton University Press.
- [10] French, R et al. (2011) *Organizational Behaviour*, 2<sup>nd</sup> edn., Wiley.
- [11] Hague, R and Harrop, M (2010) *Comparative Government and Politics: An Introduction*, 8<sup>th</sup> edn., Palgrave Macmillan.
- [12] Kjaer, AM (2004) *Governance*, Polity Press.
- [13] Kumar, S (2010) *Corporate Governance*, Oxford University Press.
- [14] Kurrild-Klitgaard, P (2004) Voting Paradoxes in List Systems of Proportional Representation, in: Rowley, CK and Schneider, F (eds) *The Encyclopedia of Public Choice*, Kluwer.
- [15] Levi-Faur, D (2012) From “Big Government” to “Big Governance”?, in: Levi-Faur, D (ed.), *Oxford Handbook of Governance*, Oxford University Press: 3-18.
- [16] List, C (2012) The Theory of Judgment Aggregation: An Introductory Review, *Synthese* 187, 179-207.
- [17] Machover, M (2012) The Underlying Assumptions of Electoral Systems, in: Felsenthal, DS and Machover, M (eds), *Electoral Systems: Paradoxes, Assumptions, and Procedures*, Springer: 3-9.
- [18] Martin, J (1998) *Organizational Behaviour*, International Thomson Business Press.
- [19] Michel-Kerjan, E and Slovic, P (eds) (2010) *The Irrational Economist*, Public Affairs.
- [20] Moulin, H (1983) *The Strategy of Social Choice*, North-Holland.

- [21] Ostrom, E (2007) Institutional Rational Choice, in: Sabatier, PA (ed.), *Theories of the Policy Process*, 2<sup>nd</sup> edn., Westview Press: 21-64.
- [22] Peters, BG (2012) Governance as Political Theory, in: Levi-Faur, D (ed.), *Oxford Handbook of Governance*, Oxford University Press: 19-32.
- [23] Rasmusen, E (2007) *Games and Information*, 4<sup>th</sup> edn., Blackwell.
- [24] Riker, WH (1982) *Liberalism Against Populism: A Confrontation Between the Theory of Democracy and the Theory of Social Choice*, Waveland Press.
- [25] Senior, B (2002), *Organisational Change*, Prentice Hall.
- [26] Swart, HCM de et al. (2003) Categorical and Ordinal Voting: An Overview, in: Swart, HCM de et al (eds) *Theory and Applications of Relational Structures as Knowledge Instruments, Lecture Notes in Computer Science 2929*, Springer: Berlin, Heidelberg: 147-195.
- [27] Taylor, AD and Pacelli, AM (2008) *Mathematics and Politics: Strategy, Voting, Power and Proof*, 2<sup>nd</sup> edn., Springer.
- [28] Voigt, S (2019) *Institutional Economics: An Introduction*, Cambridge University Press.

### 8.3 Optional Supplementary Reading

In addition to the required reading students might find it helpful or informative to read selective parts of the following sources:

- [29] Angner, E (2012) *A Course in Behavioral Economics*, Palgrave Macmillan.
- [30] Aliprantis, CD and Chakrabarti, SK (2012) *Games and Decision Making*, 2<sup>nd</sup> edn., Oxford University Press.
- [31] Arrow, K (1963) *Social Choice and Individual Values*, 2<sup>nd</sup> edn., Wiley.
- [32] Balinski, M and Laraki, L (2010) *Majority Voting: Measuring, Ranking, and Electing*, MIT Press.
- [33] Barberis, NC (2013) Thirty Years of Prospect Theory in Economics: A Review and Assessment, *Journal of Economic Perspectives* 27: 173-196.
- [34] Brams, SJ (1976) *Paradoxes in Politics: An Introduction to the Nonobvious in Political Science*, The Free Press.
- [35] Brams, SJ and Fishburn, PC (2007) *Approval Voting*, 2<sup>nd</sup> edn., Springer.
- [36] Burni, L and Sugden, R (2007) The Road not Taken: How Psychology was Removed from Economics, and How it Might be Brought Back, *The Economic Journal* 117: 146-173.
- [37] Camerer, CF et al. (2012) Neuroeconomics: Illustrated by the Study of Ambiguity Aversion, in: Frey, BS and Stutzer, A (eds) *Economics and Psychology: A Promising New Cross-Disciplinary Field*, MIT Press: 113-151.
- [38] Camerer, CF and Loewenstein, G (2004) Behavioral Economics: Past, Present, Future, in: Camerer, CF et al. (eds) *Advances in Behavioral Economics*, Princeton University Press: 3-51.
- [39] DellaVigna, S (2009) Psychology and Economics: Evidence from the Field, *Journal of Economic Literature* 47: 315-372.
- [40] Dixit, A et al. (2015) *Games of Strategy*, 4<sup>th</sup> edn., Norton.
- [41] Feldman, AM and Serrano, R (2006) *Welfare Economics and Social Choice Theory*, 2<sup>nd</sup> edn., Springer.
- [42] Fleurbaey, M (2014) Michel Balinski and Rida Laraki: Majority Voting. Measuring, Ranking, and Electing (Book Review), *Social Choice and Welfare* 42: 751-755.
- [43] Gilboa, I (2009) *Theory of Decisions under Uncertainty*, Cambridge University Press.

- [44] Greif, A. and Kingston, C. (2011) Institutions: Rules or Equilibria?, in: Schoflied, N and Caballero, G (eds), *Political Economy of Institutions, Democracy and Voting*, Springer: 13-43.
- [45] Herne, K (2011) Rational Choice and Individual Behavior, *Homo Oeconomicus* 28, 111-121.
- [46] Kahneman, D (2011) *Thinking. Fast and Slow*, Penguin.
- [47] Kersbergen, K van and Waarden, F van (2004) 'Governance' as a Bridge Between Disciplines: Cross-disciplinary Inspiration Regarding Shifts in Governance and Problems of Governability, Accountability and Legitimacy, *European Journal of Political Research* 43: 143-171.
- [48] Laslier, J-F (2012) And the Loser Is ... Plurality Voting, in: Felsenthal, DS and Machover, M (eds), *Electoral Systems: Paradoxes, Assumptions, and Procedures*, Springer: 327-351.
- [49] Lattemann, C (2010) *Corporate Governance im globalisiertem Informationszeitalter*, Oldenbourg.
- [50] List, C and Pettit, P (2002) Aggregating Sets of Judgments: An Impossibility Result, *Economics and Philosophy* 18: 89-110.
- [51] Nurmi, H (1999) *Voting Paradoxes and How to Deal with Them*, Springer.
- [52] Nurmi, H (2012) On the Relevance of Theoretical Results To Voting System Choice, in: Felsenthal, DS and Machover, M (eds), *Electoral Systems: Paradoxes, Assumptions, and Procedures*, Springer: 255-274.
- [53] Maschler, M. et al. (2013), *Game Theory*, Cambridge University Press.
- [54] Peters, H et al. (2012) On the Manipulability of Approval Voting and Related Scoring Rules, *Social Choice and Welfare* 39: 399-429.
- [55] Shleifer, A (2012) Psychologists at the Gate: A Review of Daniel Kahneman's *Thinking, Fast and Slow*, *Journal of Economic Literature* 50: 1080-1091.
- [56] Taylor, A (2005) *Social Choice and the Mathematics of Manipulation*, Cambridge University Press.
- [57] Wakker, PP (2010) *Prospect Theory: For Risk and Ambiguity*, Cambridge University Press.

**Note:** All required and some of the optional sources for the course is available on the e-learning server.

## 9. Accreditation

- Economics (BA):  
Modulbereich Spezialisierung (SPEZ): Institutionen und Governance (under the new examination regulations from WiSe 2016/2017 onwards)  
Modulbereich Spezialisierung VWL (SVWL): „Public Management und Governance“ (under the previous examination regulations until SoSe 2016)
- IWE (BA):  
Modulbereich Individueller Schwerpunkt (ISP): Schwerpunktbereich: Institutionen und Governance (IG) (under the new examination regulations from WiSe 2016/2017)  
Modulbereich Spezialisierung SP B: Spezialisierungsmodulbereich IGME: Institutionen, Governance, Markt und Entwicklung (under the previous examination regulations until SoSe 2016)

- P&E (BA):  
Modulbereich E: Economics / Modul E6: Spezialisierung (under the current examination regulations from SuSe 2019 onwards)  
Modulbereich E: Economics / Modul E6: Spezialisierung (under the previous examination regulations from WiSe 2015/2016 until WiSe 2018/2019)  
Modulbereich Ö: Ökonomie / Modul Ö6: Veranstaltungen eigener Wahl (under the previous examination regulations until SoSe 2015)  
Modulbereich V: Verzahnung Philosophie/Ökonomie (under the previous examination regulations until SoSe 2015)

### **10. Responsible Student Assistant for the Course**

All requests regarding the course should, in the first instance, be addressed to:

- Feriha Esen:  
E-mail: feriha.esen@uni-bayreuth.de

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