

THE UNIVERSITY OF HONG KONG
FACULTY OF BUSINESS AND ECONOMICS
ECON 2276: STATE, LAW AND THE ECONOMY
First Semester 2022-2023

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Course Logistics:

Dr. Vera Yuen will conduct the term paper class on how to prepare the proposal and fulfil the requirements of the term paper on **23 September 2022**. Attendance is expected.

Prof. Wong and Dr. Yuen will conduct face-to-face lectures in class. Attendance is expected.

Lecture Schedule: Tuesday 12:30 – 13:30; Friday 12:30 – 14:30

Lecture Room: KK 202

We use a course management system named MOODLE. Please login to your HKU Portal account to access MOODLE. For further details, please refer to the “MOODLE Instruction Guide” that is posted on our MOODLE website.

Course Description:

This course applies economic analysis to study three institutions state, law, and the economy and their interrelationships. Topics include: Why is the nature of the state? What is its origin? What are the differences between the liberal and populist conceptions of the democratic state? What and why are there dilemmas of political organization, conflict, and succession in the autocratic state? What is the rule of law? How does the political and economic order relate to rent seeking groups? What is the difference between the common law and the civil law as legal systems? What consequences does it have? What is the modernization hypothesis and the critical juncture theory? How and why do dictatorships become democracies; and why sometimes the reverse happens? What is the role of economic, behavioural and structural factors in such transitions? Why are revolutions often surprises? Does democracy promote growth? Does the type of legal system one inherits promote growth? What is the relationship between rulers, citizens and interest groups in

the pre-industrial world? The course also adopts an analytic narratives approach to interpret comparative case histories drawn from Europe, America, China, India, and the Middle East.

Aims:

1. To teach economic concepts relevant to the study of political economy including the logic of collective action, theory of social choice, agenda manipulation, dictator’s dilemma, rent seeking, legal origins theory, constitutional commitment, transition from dictatorship to democracy, revolutions and uprisings, modernization hypothesis
2. To provide a theoretical and empirical understanding of the behavior of the state in democracies and autocracies and their consequences for economic performance;
3. To analyze the economic, behavioral and structural factors influence the transformation of the state from an autocracy to a democracy and why there is a role for surprises;
4. To examine how the rule of law and the legal origins of the legal system affects economic performance;
5. To compare and contrast the historical experiences of Europe, America, China, India and the Middle East.

Prerequisite:

Students should have studied introductory microeconomics. Students may want to contact Dr. Vera Yuen for a possible waiver of the prerequisite.

Assessment Tasks:

Assessment Method	Assignment	Weighting	Alignment with CILOs
Final Exam	A two-hour written final exam	50%	1, 2, 3, 4
Written paper	Expository essay of 1500 words.	50%	1, 2, 3, 4

There are two assessment requirements for this course: (1) a final exam (50%) covering topics taught in the course, and (2) a written paper of 1500 words (50%). The course grade 100% is determined as the sum of two assessment requirements. In addition, up to 5% participation bonus will be awarded to students who actively participate in class.

Written Paper:

The written paper should examine in depth **ONE** specific topic studied in the course. It should be a thoughtful examination of **ONE** specific topic based on the materials assigned in the reading list. There is **NO** need to consult additional reading materials. Students should **NOT** work on a subject from another course. Here are some good approaches:

- (1) Write a review of one of the books assigned in this course.
- (2) Compare and contrast the analysis between two books on a common subject.
- (3) Write on a topic that is discussed in several books or collection of papers.

- (4) Consult with Dr. Vera Yuen for advice in deciding on a topic, she will also organize term paper sessions during normal lecture time for this purpose.

The final written paper is due on **Sunday, 11 December 2022**. Late submissions will **NOT** be accepted. A precise word count must be given at the end of the paper. Footnotes and references should be placed at the end of the paper so that they can be excluded from the word count. Appendices are not necessary and not appropriate for papers of such a short length and should not be submitted. It is advisable to seek English language assistance if needed to ensure that your paper is clear.

Students **must** submit a **half-page proposal** of the paper they intend to write. The deadline for the proposal is on **Sunday, 9 October 2022**. Late submissions will not be allowed. Students should include in the proposal student name, student number, the title of the project and a short summary of the subject they will investigate.

Students are also encouraged to submit a first draft of the final paper for the instructors to provide feedback, but this is **optional**, not mandatory. If students choose to submit a first draft, they must do so on **Sunday, 6 November 2022**. Your grade on the paper will depend only on your final paper, and not your draft. If you submit a written paper, but **DID NOT** submit a proposal or the proposal was **NOT APPROVED**, then you have **FAILED** this part of the assessment. Your first draft must be a complete one,

Therefore, **deadlines** to be observed:

Proposal submission	—	Sunday, 9 October 2022
First draft (optional) submission	—	Sunday, 6 November 2022
Final paper submission	—	Sunday, 11 December 2022

The proposal and paper(s) **must** be submitted electronically via MOODLE.

Course Syllabus:

Reading List

Required readings are marked with an asterisk; others are optional.

PRELIMINARIES

*YCR Wong, *Notes on the Concept and Origins of the State*, Spring 2015

PART ONE: THE STATE

1. POLITICS AS RATIONAL CHOICE AND COLLECTIVE ACTION

*Dennis Mueller, *Public Choice III*, Cambridge University Press, 2003, chap 2-3.

*Gary S Becker, "Irrational Behaviour and Economic Theory," *Journal of Political Economy*, Vol. 70, No. 1, 1962, pp. 1-13.

Avner Greif, *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade*, Cambridge University Press 2006. (Appendix: A Primer in Game Theory, pp. 407-420)

2. ON DEMOCRACY, SOCIAL CHOICE, AND POLITICS AS ART

*William H Riker, *Liberalism Against Populism: A Confrontation Between the Theory of Democracy and the Theory of Social Choice*, W H Freeman, 1982, chap. 1-2, 10.

*William H Riker, *The Art of Political Manipulation*, Yale University Press, 1986, pp. 1-9, 52-65.

*YCR Wong, "Lincoln, Heresthetics, and the Birth of the Republican Era." March 2013

Isaiah Berlin, "Two Concepts of Liberty," *Four Essays on Liberty*, Oxford University Press, 1969.

YCR Wong, *Notes on European Intellectual Thought*, Fall 1977.

3. ON AUTOCRACY, CONTROL, AND POWER SHARING

*George Tullock, "Autocracy", *Encyclopaedia of Public Choice Vol. 2*, Kluwer Academic Publ. Co., 2003, pp.32-34.

*Stephen Haber, "Authoritarian Government", in B R Weingast and D A Wittman, ed., *The Oxford Handbook of Political Economy*, Oxford University Press, 2006, chap. 38, pp. 633-707.

*Milan W Svobik, *The Politics of Authoritarian Rule*, Cambridge University, 2012, chap. 1-2, 7.

*Daniel Koss, *Where the Party Rules*, Cambridge University Press, 2018, chap. 1-2.

PART TWO: STATE AND THE ECONOMY

4. INTEREST GROUPS, RENT SEEKING AND GROWTH

*Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft," *Western Economic Journal*, 1967, pp. 224-32.

*Kevin Murphy, Andrei Shleifer, and Robert Vishny, "Why is Rent-Seeking so Costly to Growth?" *American Economic Review*, Vol. 83, No. 2, May 1993, pp. 409-414.

Kevin M. Murphy; Andrei Shleifer; Robert W. Vishny, "The Allocation of Talent: Implications for Growth," *The Quarterly Journal of Economics*, Vol. 106, No. 2. (May, 1991), pp. 503-530.

*Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, Yale University Press, 1982, ch. 4, pp. 75-117 (background reading ch. 1-3, pp. 1-74.).

5. DETERMINANTS OF DEMOCRACY: THE MODERNIZATION HYPOTHESIS VERSUS CRITICAL JUNCTURES

*Robert Barro, "Determinants of Economic Growth in a Panel of Countries", *Annals of Economics and Finance*, Vol. 4, 2003.

Robert Barro, "Democracy and Growth", *Journal of Economic Growth*, Vol. 1, No. 1, Mar 1996.

*Robert Barro, "Determinants of Democracy", *Journal of Political Economy*, Vol. 107, No. 6, Dec 1999.

*Robert Barro, "Convergence and Modernization", *Economic Journal*, Volume 125, Issue 585 June 2015, P 911–942

*Daron Acemoglu, Simon Johnson, James Robinson, and Pierre Yared, "Income and Democracy", *American Economic Review*, Vol. 98, No. 3, 2008, pp. 808-842.

*Erich Gundlach and Martin Paldam, "Income and Democracy: A Comment on Acemoglu, Johnson, Robinson, and Yared", *Kiel Working Paper No. 1458*, Kiel Institute for the World Economy, 2008

*Daron Acemoglu, Suresh Naidu, Pascual Restrepo, and James Robinson, "Democracy Does Cause Growth", NBER Working Paper No. 20004, March 2014.

<http://papers.nber.org/papers/w20004.pdf> (Summary: "Democracy causes economic development?" VOX, CEPR Policy Portal, 19 May 2014. <https://voxeu.org/article/democracy-and-growth-new-evidence>

*Edward L. Glaeser, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "Do Institutions Cause Growth?" *Journal of Economic Growth*, Vol. 9, Issue 3, September 2004,

PART THREE: ON LAW, ECONOMY, AND THE STATE

6. ORIGINS OF THE RULE OF LAW

*Edward H. Levi, *An Introduction to Legal Reasoning*, University of Chicago Press, pp. 1-8, 102-104.

*Edward Glaeser and Andrei Shleifer, "Legal Origins", *Quarterly Journal of Economics*, Vol. 117, No. 4, 2002, pp. 1193-1229.

7. RULE OF LAW AND GROWTH

*Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Schleifer, "The Economic Consequences of Legal Origins", *Journal of Economic Literature*, 46:2, 2008, pp. 285-332.

*Paul Mahoney, "The Common Law and Economic Growth: Hayek Might be Right", *The Journal of Legal Studies*, Vol. 3, No. 2, June 2001.

Manuel Vega-Gordillo and Jose L Alvarez-Arce, "Economic Growth and Freedom: A Causality Study", *Cato Journal*, Vol. 23, No. 2, 2003, pp.190-215.

Ariel Benyishay and Roger R. Betancourt, "Civil Liberties and Economic Development", *Journal of Institutional Economics*, Vol. 6, No. 3, 2010, pp. 281-304

PART FOUR: POLITICAL REVOLUTIONS AND CRITICAL JUNCTURES

8. DO REVOLUTIONS LEAD TO DEMOCRACIES?

Barrington Moore, Jr., *The Social Origins of Dictatorships and Democracy: Lord and Peasant in the Making of the Modern World*, Penguin, 1966.

*Michael Bernhard, "The Moore Thesis: What's Left after 1989?" Presented at 101st Annual Meeting of the American Political Science Association, August-September 2005, Washington, DC.

*Daron Acemoglu and James A Robinson, "Paths of Economic and Political Development", in B R Weingast and D A Wittman, *The Oxford Handbook of Political Economy*, Oxford University Press, 2006, chap. 37, pp. 673-692.

*Daron Acemoglu and James A Robinson, *The Economic Origins of Dictatorship and Democracy*, Cambridge University Press, 2005, chap 1-3, 11.

Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Business, 2012.

Robinson, James and Daron Acemoglu, *The Narrow Corridor: States, Societies, and the Fate of Liberty*, 2019, Penguin, 576 pages.

9. THE SURPRISE ELEMENT IN REVOLUTIONS

*Timur Kuran, "Sparks and Prairie Fires: A Theory of Unanticipated Political Revolution," *Public Choice*, 61, April 1989, pp. 41-74.

Timur Kuran, "Now Out of Never: The Element of Surprise in the East European Revolution of 1989." *World Politics*, 44, October 1991, pp. 7-48.

10. THE REVOLT OF THE PUBLIC IN THE NETWORKED INFORMATION AGE

Eric Schmidt and Jared Cohen, *The New Digital Age: Reshaping the Future of People, Nations and Business*, Knopf, 2013.

*Niall Ferguson, *The Square and the Tower: Networks and Power, from the Freemasons to Facebook*, Penguin Press, New York, 2018, Parts 8-9, pp. 333-431.

*Moises Naim, *The End of Power: From Boardrooms to Battlefields and Churches to States, Why Being In Charge Isn't What It Used to Be*, Basic Books, 2014.

Martin Gurri, *The Revolt of the Public and the Crisis of Authority in the New Millennium*, Stripe Press, San Francisco, 2018, 445 pages. <https://thefifthwave.wordpress.com/>

Course Intended Learning Outcomes (CILOs)

Upon completing this course, students should be able to:

CILO1	Understand economic concepts in the study of political economy and apply them to interpret historical, contemporary and comparative experience;
CILO2	Understand the economic approach to the study of democracies and dictatorships;
CILO3	Understand how and why the transition of dictatorships into democracies can sometimes occur;
CILO4	Understand how the state and the legal origins of the law affects economic performance;
CILO5	Develop critical thinking in analyzing the relationships between politics, law and economics using both analytical tools and applying a comparative historical perspective.

Alignment of program ILOs and course ILOs Teaching and Learning Activities (TLA)

Aligned Faculty Goals	Course ILOs
Acquisition and internalization of knowledge of economics & finance	CILO1, CILO2, CILO3, CILO4, CILO5
Application and integration of knowledge	CILO1, CILO2, CILO3, CILO4, CILO5
Inculcating professionalism and leadership	CILO5
Developing global outlook	CILO1,
Mastering communication skills	CILO2, CILO3, CILO4, CILO5

Course Teaching and Learning Activities			Expected contact hour	Study Load (% of study)
TLA1	Lecture	Instructor will give lectures on major concepts and issues.	36	30%
TLA2	Discussion	Instructor will organize classroom discussions.	6	5%
TLA3	Consultation	Instructor holds weekly consultation hours to answer students' questions and through an e-learning platform on Moodle.	12	10%
TLA4	Written Assignment		24	20%
TLA5	Self Study		42	35%
		Total	120	100%

Alignment Among Course Intended Learning Outcome, Teaching and Learning Activities and Assessment Tasks:

Learning Outcome	Teaching and learning activity (TLA)	Assessment Tasks
CILO1	TLA1, TLA2, TLA3	Written Paper and Exam
CILO2	TLA1, TLA2, TLA3	Written Paper and Exam
CILO3	TLA1, TLA2, TLA3	Written Paper and Exam
CILO4	TLA1, TLA2, TLA3	Written Paper and Exam

Standards of Assessment

Grade	Criteria and Standards
Assessment Task: Written Paper	
A+, A. A-	<p>Identifies and addresses the main themes and issues clearly, including their subsidiary, embedded or implicit aspects.</p> <p>Consistent perceptive and critical engagement with the themes and issues based on comprehensive understanding of relevant concepts and theories, with effective analysis, synthesis and application of knowledge.</p> <p>Demonstrates a comprehensive command of existing arguments relevant to the topic, and examines the issues from all important perspectives including rival</p>

	<p>positions and counter-evidence.</p> <p>The arguments fit together logically and build a compelling case.</p> <p>The paper has a clear structure and organization, with an introduction that states the main themes and writer's position and a conclusion that summarizes the main arguments. Each paragraph has a central idea which is developed throughout the paragraph with supporting details.</p> <p>The paper has very few, if any, errors in grammar and vocabulary.</p> <p>Quoted materials from other sources (with proper citation) are used only to support and strengthen arguments instead of replacing the student's own writing.</p>
B+, B, B-	<p>Identifies and addresses the main themes and issues, but not all subsidiary, embedded or implicit aspects.</p> <p>Generally perceptive and critical engagement with the themes and issues based on good understanding of relevant concepts and theories, as well as effective analysis, synthesis and application of knowledge.</p> <p>Demonstrates a good command of existing arguments relevant to the topic, and examines the issues with regard to some important perspectives including rival positions and counter-evidence.</p> <p>The arguments fit to form a clear own position, but some arguments are underdeveloped and some considerations overlooked.</p> <p>The paper has a clear structure and organization, with an introduction that states the main themes and the writer's position and a conclusion that summarizes the main arguments. Some paragraphs lack a central idea or supporting details.</p> <p>The paper has some errors in grammar and vocabulary.</p> <p>Quoted materials from other sources (with proper citation) are used to support and strengthen arguments, but sometimes also used to replace the student's own writing.</p>
C+, C, C-	<p>Identifies and addresses the main themes and issues, but not the subsidiary, embedded or implicit aspects.</p> <p>Only occasional perceptive and critical engagement with the themes and issues reflecting mostly superficial understanding of relevant concepts and theories, with some inaccurate analysis, synthesis and application of knowledge.</p> <p>Demonstrates insufficient command of existing arguments relevant to the topic, and not all main arguments or counter-arguments examined.</p> <p>Offers own position but the reasoning is sometimes impaired by weak, emotive or inconsistent argumentation.</p> <p>The presentation has an introduction and conclusion, but these do not fully capture the essence of the topic and discussion. Some paragraphs lack a central idea or supporting details.</p> <p>There are distracting language errors though the overall meaning is still</p>

	<p>intelligible.</p> <p>Quoted materials from other sources (with proper citation) are used more to replace the student's own writing than to support and strengthen arguments.</p>
D+, D	<p>Identifies and addresses the main themes and issues only partially.</p> <p>Very limited critical engagement with the themes and issues rarely goes beyond reproduction of relevant concepts and theories, and with some inaccuracies even doing so.</p> <p>Demonstrates a lack of understanding of existing arguments relevant to the topic.</p> <p>Offers own position but the arguments are poorly made and not well supported.</p> <p>The topic is not properly introduced and the conclusion is very brief. Shows little ability to construct paragraphs with a central idea and supporting details.</p> <p>Frequent errors in simple grammar and vocabulary. Errors are distracting and the overall meaning is not easily intelligible.</p> <p>Quoted materials from other sources (with proper citation) are heavily used to replace the student's own writing.</p>
F	<p>Failure to identify and address any main theme and issue.</p> <p>No critical engagement with any issue, little mentioning and application of relevant concepts and theories, and with inaccuracies when doing so.</p> <p>Demonstrates a lack of understanding of existing arguments relevant to the topic.</p> <p>No coherent own position and the arguments are confused and flawed.</p> <p>Introduction and conclusion are unclear, lack details or missing altogether. Shows little ability to organize the paper into paragraphs that have a central idea and supporting details.</p> <p>Language errors are so frequent and distracting that the paper is largely incomprehensible.</p> <p>Quoted materials from other sources are heavily used to replace the student's own writing, sometimes without proper citation.</p>
Assessment Task: Final Examination	
A+, A, A-	<p>Demonstrates superior grasp of all aspects of the course (basic concepts and major perspectives and arguments in the literature).</p> <p>Demonstrates excellent ability to interrelate and synthesize course materials, and to arrive at one's own position in controversial issues based on knowledge acquired from the course.</p>
B+, B, B-	<p>Demonstrates good grasp of all major aspects of the course (basic concepts and major perspectives and arguments in the literature).</p> <p>Demonstrates reasonable ability to interrelate and synthesize course materials, and to arrive at one's own position in controversial issues based on knowledge</p>

	acquired from the course.
C+, C, C-	Demonstrates acceptable grasp of most major aspects of the course (basic concepts and major perspectives and arguments in the literature). Demonstrates acceptable ability to interrelate and synthesize course materials, and to arrive at one's own position in controversial issues based on knowledge acquired from the course.
D+, D	Demonstrates a marginally acceptable grasp of some major aspects of the course (basic concepts and major perspectives and arguments in the literature). Demonstrates a marginally acceptable ability to interrelate and synthesize course materials, and to arrive at one's own position in controversial issues based on knowledge acquired from the course.
F	Failure to meet a minimum standard of knowledge base in the subject matter. Failure to arrive at one's own position in controversial issues based on knowledge acquired from the course.

Academic Conduct

1. The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web: <http://www.hku.hk/plagiarism/>
2. Academic dishonesty is behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following type of case:
 - a. Plagiarism – The representation of someone else's ideas as if they are one's own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged.
 - b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort. Where a candidate for a degree or other award uses the work of another person or persons without due acknowledgement:
 - The relevant Board of Examiners may impose a penalty in relation to the seriousness of the offence;
 - The relevant Board of Examiners may report the candidate to the Senate, where there is *prima facie* evidence of an intention to deceive and where sanctions beyond those in (1) might be invoked.

- c. Double Submission of Assignments - The submission of assignments as fulfillment of work in this course using materials that were or are being submitted for another course is also plagiarism. It is self-plagiarism and is the same as plagiarism, i.e., representation of someone else's ideas as our own. That some else is oneself. It is an attempt to get credit for work that will earn credit elsewhere.

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