Institutions defined--

- “a way of thought or action of some prevalence and permanence which is embedded in the habits of a group or the customs of a people.” Hamilton
- “Settled habits of thought common to the generality of men.” Veblen
- “Rules of the game.” North
- “Laws, informal rules...that give a durable structure to social interactions....” Bowles

Case: Women in Labor Force

- 1. Relative prices.
- 2. Preferences, habit, ideology.
- 3. Anti-discrimination law.
  - Are costs of raising children a cost of producing cars or legal briefs?

Institutions defined--Commons

- “sets of ordered relationships among people that define their rights and opportunities and their exposure to the rights of others, their privileges and responsibilities.”

What to hold constant

- The individual.
- Habits
- Formal institutions.
- Technology.
- Human Brain
- Different things at different times and contexts.
Unit of Observation: Transactions

- I am tempted to put conflict and power at the center of institutional economics.
- And the way conflict is resolved (elements coordinated to different ends) defines economic development.

Economic Systems

- “Field theory does not apply generally to the domain of economic agent interactions.”
- Evolving “connections.”
- “Selection does not optimize but is irreducibly a historically contingent process.”

How are firms connected in neoclassical theory?

- Prices
Incomplete Connections

What does it mean to say

- “Prices are social conventions?” Hodgson
- “Cost is a function of rights.” Samuels
- Informal conventions & formal rights help form prices and costs.

Applications

- Sticky prices in recession.
- Flood insurance purchase behavior.
- Growth in women's entry to the workforce. Persistent gap in salaries.
- Rising health care expenditures.

Review Questions: Some questions to ask yourself after reading to see if you understand:

1. Are externalities a special case? What is the problem with the usual textbook definition? What is the difference between a spillover and an ordinary production input?
2. Can freedom be a general goal for all and a criterion to judge alternative institutions? Evaluate this proposition: "I seek no power, I just want to be left alone."
3. Is any economy unplanned?
4. Can value maximization be a criterion to judge alternative institutions?
**Sound Bites**

- Externalities are ubiquitous.
- Power is unavoidable.
- All economies are planned.
- Cost is not natural.

**More Sound Bites**

- The chicken **and** the egg came first.
- Preferences are learned, not just economized.
- Cognition matters.
- Habits matter.

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**Major themes of Part I**

- Economizing.
- Power
- Knowledge. Incl. Habits, meaning,....

- Learning (of preferences).
- Bounded rationality.
- Evolution of “connections.”