

School of Economics and Finance

MMPE 505  
INFORMATION, INSTITUTIONS AND MARKETS

Trimester 3, 2015

COURSE OUTLINE

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Names and Contact Details

Course Coordinator/Lecturer:	Lew Evans	RH406
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Course Administrator:	Debbie Turner	RH321
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Trimester Dates

**Course Introduction:** 20 November at 1.40 pm RWWY 129

**Teaching Period:** Thursday 10<sup>th</sup>, Friday 11<sup>th</sup> and Saturday 12<sup>th</sup> December 2015, and  
Wednesday 20<sup>th</sup>, Thursday, 12<sup>th</sup>, and Friday 22<sup>nd</sup> of January 2016

**Study Period:** 9<sup>th</sup> – 12<sup>th</sup> February 2016

**Examination Period:** Monday 22 February – Saturday 27<sup>th</sup> February (inclusive)

**Withdrawal from Course**

1. Your fees will be refunded if you withdraw from this course on or before 9 December 2015.
2. The standard last date for withdrawal from this course is 3 February 2016. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an 'Application for Associate Dean's Permission to Withdraw Late' including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks.

### Class Times and Room Numbers

Teaching period 1: 10-12 December 2015

Thursday	1.30pm-6.00pm	RWW413
Friday	9.00am-6.00pm	RWW413
Saturday	9.00am-1.30pm	RWW413

Teaching period 2: 20-22 January 2016

Wednesday	9.00am-6.00pm	RWW413
Thursday	9.00am-6.00pm	RWW413
Friday	9.00am-1.00pm	RWW413

### **Prescription and Approach**

This course is designed to equip economists for careers as economic consultants and policy advisers. It has the philosophy that there should be an intimate connection between theory and practice in applying economics. It considers the benefits and costs of trade and exchange, and institutions that coordinate activity among individuals that have disparate interests. It explains the evolution of market and nonmarket institutions. It imparts experience by drawing on the detail of policy, governance, operation and performance of two New Zealand industries.

The course is not mathematical and does not require mathematical working in answers. Reference material will contain mathematics to various extents and students are encouraged to read any mathematical works just as far as they are comfortable with. Students may answer questions using mathematics to the extent they choose. Student written answers should be clearly expressed whatever approach is taken.

While reference to most material is provided, students are encouraged to actively seek and use any material that is relevant to the issue they are studying. Sources of material should be documented in any – non-examination – written answers.

### Course Learning Objectives

C1	Explain how institutions of exchange have evolved from as early as the 5 <sup>th</sup> century to modern (digital) economies
C2	Explain the distinction between static and dynamic efficiency and how these efficiencies relate to “workable” competition and firm-specific regulation
C3	Assess the role of transactions costs in determining market institutions
C4	Assess the role of economies of scale in determining market and nonmarket (regulatory) institutions
C5	Explain the governance of investor-held and cooperative institutional forms of ownership
C6	Describe, explain and evaluate the recent histories and present institutions of the New Zealand Electricity and Dairy markets.

## Course Content

Weekly Guide to Subject Matter	
1	Gains from trade: economic efficiency: Static efficiency: (Cooter and Ulen Ch.2 (or some I-O or microeconomics text)) Dynamic efficiency: Evans and Hahn,
2 & 3	Contracting, asymmetric information and transactions costs: Cooter and Ulen, ch. 6, & pp. 85-99, Boyd et al. The place of workable competition in the institution of competition law: Evans' Note, Katz, Commerce Act, Objective, Parts 27 and 36.
4	Thurs 10 December – 12 December lectures, tutorials Discussion of Assignments Static and dynamic efficiency institutions of market structures, The institutions of governance of (supplier) cooperative and investor held firms The recent history and regulatory institutions of NZ Dairy (Includes session by Dr Hansen, Director Global Dairy Trade)
5 & 6	Regulation of (natural) monopoly when demand is uncertain, Any text for the standard certainty approach, ComAct Part IV, Guthrie (2006); Institutions and their evolution: Grief Ch. 3-6, Milgrom et al. Institutions and their evolution: Grief Ch. 3-6, Milgrom et al. , Youtube1
8	Wed 20 January - 22 January: lectures, tutorials and 1 hr test (22 January) The evolution of markets and trading institutions Regulation: where there is scale economies and/or a need for centralised governance The evolution, governance and performance of the NZ electricity market (visit spot market administrator tba.)
9,10 &11	The history of markets: McMillan Ch.1-14
	22-27 February: Examination tba

The lecturer will sometimes deviate from the order of the lecture programme.

The readings are set out below. Students are expected to read these before the relevant class to put themselves in a position to benefit from the lectures and from participation in class.

### Course Delivery

The course will be delivered during two intensive 2.5 day teaching periods. The lectures will consist of a mix of formal lectures, and class discussions of cases.

### Expected Workload

The expected workload for MMPE 505 is 200 hours in aggregate; 12-15 hours per week on average during term plus around 40 hours (in total) during the break and study period. Each week during term time you should expect to spend time reading and completing assignments

### Readings

Other readings

References: are provided by the library (LIB) or BlackBoard (BB)

(Information about e-books in the library is at the [Finding and using e-books](#) of the library)

Avner Grief, Institutions and the path to the Modern Economy, Cambridge, University Press, 2006.LIB, (an e-book that can be found as an “EBL” book in the library at <http://victoria.lconz.ac.nz/vwebv/holdingsInfo?bibId=1629626> ).

John, McMillan, *Reinventing the Bazaar: a natural history of markets*, W.W Norton and Co. 2002.LIB

Paul R. Milgrom, Douglass C. North and Barry R. Weingast, "The role of institutions in the revival of trade: the law merchant, private judges and the Champagne fairs", *Economics and Policy*, 1990,.BB

Example of a microeconomics text book: *Modern Industrial Organization* (4th Edition, 2005) [Dennis W. Carlton, Jeffrey M. Perloff: older editions are OK too LIB

Youtubel: "Flooded: the complete documentary" – a documentary about the evolution of the Chicago Board of Trade.

Cooter, Robert and Thomas Ulen, *Law and Economics* (Addison-Wesley) 5th ed. LIB

Haleigh Boyd, Lewis Evans and Neil Quigley, "The Efficiency of Contractual Arrangements in Private Agricultural Product Markets, VUW Law Review and ISCR research paper, 2000.BB

Lewis Evans, Note for a Roundtable Discussion, BB

Lewis Evans and Robert Hahn, *Regulation of Dynamic Markets, Progress in theory and Application*, ISCR discussion paper, 2010, BB

Michael Katz, *Competition, Efficiency, and the Long-Term Benefit of End-Users*, submission to the NZ Commerce Commission 2004. BB

Lewis Evans and Richard Meade, *Alternating Currents or Counter-Revolution: contemporary electricity reform in New Zealand*, E-form, BB.

Veronika Grimm and Gregor Zoetl, "Investment Incentives and Electricity Spot Market Competition", *Journal of Economics and Management Strategy*, 22(4) 2013.BB

Lewis Evans and Graeme Guthrie, "A Dynamic Theory of Cooperatives, the link between efficiency and valuation", *Journal of Institutional and Theoretical Economics*, 162(2), 2006. BB

CA: Commerce Act <http://www.legislation.govt.nz/act/public/1986/0005/latest/DLM87623.html>

Graeme Guthrie, "Regulating Infrastructure, the Impact on Risk and Investment", *Journal of Economic Literature*, XLIV 2006. BB

Ripple effect from judicial review of commercial tendering - August 2015, BB

Evolving Judicial Review, (Thesis). BB

Problem Gambling Foundation/ Attorney general (Decision High Court), BB

The Rise of Regulatory State, E. L Glaeser and Andre Schleifer, *Journal of Economic Literature*, XLI, (June 2003) 401-425. BB

Magna Carta to 2015: allocating rights: Penn Institute for Economic Research working paper 15-035, [pier@econ.upenn.edu](mailto:pier@econ.upenn.edu), BB

## **Assessment**

Assessment Handbook applies to all VUW courses: see

<http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

1. Assignments	30%	
2. Test	30%	[12-1pm: January 22 2016]
3. Final examination	40%	[TBA] (two hours)

At the margin, consideration will be given to your contribution to class discussion and activities.

### **Assignments:**

A (20% of Final Grade): Students should submit by 5pm 8 December: a maximum of three pages on each of

1. What has been the effect on market structure of the arrival of the internet?
2. An explanation (using graphs or algebra) of Cournot competition
3. What explains the contemporaneous existence of the NZSX, NZAX ([www.nzx.com](http://www.nzx.com)) and UL (<https://www.unlisted.co.nz>) share exchanges?
4. What is a “real option” and why does its value normally increase with volatility?

B (10% of Final Grade): Students (this will be a group project) should submit by 5 pm February 12<sup>th</sup> 2016 *either* an explanation of the institutional arrangements and price formation of the New Zealand natural gas market *or* an evaluation of economic effects of the 50% stake in Silver Fern Farms Limited being acquired by the Chinese company Shanghai Maling. It should be no more than 1500 words. Alternative topics may be added to these two, but will be decided by 22 January 2016.

Test: The test will cover all material to January 20th. All the material covered in class in the teaching periods, and all the reading specified in the course outline as relevant for those lectures will be examinable.

A missed test will be entered as a zero unless either written permission has been granted in advance by the Course Coordinator, or there are clear medical reasons for non-attendance, supported by written evidence from a doctor.

In the event of a student being unable to sit the test for a legitimate reason, the assessment components will be re-weighted to 40% on assignments and 60% on the final exam.

Examination: The final examination will be two hours.

### **Penalties**

Late assignments will accrue a penalty of 10% per day for the first three days after the due date. Beyond that they will not be marked, unless the course co-ordinator has approved an extension in advance.

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct.

### **Use of Turnitin**

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and submitted to Turnitin.

A copy of submitted materials will be retained on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

### **Examinations**

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period. The final examination for this course will be scheduled at some time during the following period:

Monday 22<sup>nd</sup> February – Friday 27<sup>th</sup> February 2016 (inclusive).

### **Mandatory Course Requirements**

Completion of each assessment item 1 and 2; and an average of at least 40% across them

If you anticipate that you will not be able to complete an assignment or sit a test or examination at the specified date, in the first instance, contact the Course Administrator to discuss the options. If you cannot complete an assignment or sit a test or examination, refer to

[www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat](http://www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat)

### **Communication of Additional Information**

Additional information and announcements will be posted on Blackboard.

I will communicate with you via email. You should do the same. Please note that I may not check voice messages on my office phone every day. If you wish to get in touch urgently, please contact the Course Administrator in the first instance or the School of Economics reception (04 463 5380).

### **Student feedback**

Student feedback on University courses may be found at

[www.cad.vuw.ac.nz/feedback/feedback\\_display.php](http://www.cad.vuw.ac.nz/feedback/feedback_display.php)

### **Link to general information**

For general information about course-related matters, go to

<http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

### **Note to Students**

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

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