Institutions

Vakhrusheva Tatiana
Gorozhanko Maxim
Rыbakova Zlata
Egorova Anastasiia

Institutions -

constraints or rules that induce stability in human interaction

The term ‘institutions’ can be used in a dual way:

It denotes rules, norms and other constraints of human interaction ‘Institutions’ in this sense include conventions awell as formal and informal rules

It describes this resulting stable patterns of interaction among a set of agents and the social mechanisms generating this outcome

The theory of games: institutions are first represented by the rules of the games actors are playing.

- the set of possible actions (<u>strategies</u>) of the agents
- the consequences of the actions (<u>payoffs</u>)
- the available amount of information
- agents choose an action <u>(strategy)</u> that is individually optimal

The optimal choices - <u>an equilibrium</u>.

<u>An equilibrium</u> - a combination of actions such that no agent has a stimulus to deviate from the chosen actions individually, that is under the condition that the other actors choose their equilibrium actions

Institutions -

the set of constraints or rules which determine the opportunities and incentives of the relevant actors in a given situation

Interactions within these rules generate equilibrium, which may be stable over time if the situation repeats

These equilibrium outcomes can be considered an essential component of the institution

Conventions

Lewis: a behavioral regularity R in a population of agents who recurrently interact in a coordination situation IF:

- R is an equilibrium of the recurrent situation
- almost every member of the population prefers to conform to R
- almost every other member of the population conforms to R too

A prisoner's dilemma

is a social interaction such that universal cooperation is profitable to everyone, but it is even more profitable to defect unilaterally from cooperation

Cooperation is not an equilibrium situation in the single-shot prisoner's dilemma.

THE PRISONER'S DILEMMA

	B stays silent (cooperates)	B betrays A (defects)
A stays silent (cooperates)	Both serve 1 year	A serves 3 years, B goes free
A betrays B (defects)	A goes free, B serves 3 years	Both serve 2 years

SOURCE: Wikipedia

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A social institution -

regularity in the behavior of the members of a a regularity in the behavior of the members of a population that ‘specifies behavior in specific recurrent situations, and is either self-policed or policed by some external authority

The concept ‘social institution’ includes conventions as a special case, and also formal and informal social norms

Classifications

1. Personal & social rules
2. formal & informal institutions

constitutional level
the level of collective choice

1. by the spheres of the society

Effects

- Institutions regularize social life.
- The institutionalization of social norms in Parsons' sense is a key to the solution of the Hobbesian problem of order (Parsons 1937)
- May foster cooperation and increase efficiency (by Pareto)
- A part of a society's social capital (Coleman 1990)

Mechanisms of Institutional Change

- Institutional change by conscious design

Formal institutions such as legal norms are in many cases designed purposively

- Institutional change due to evolutionary forces of an ‘invisible hand’ (Adam Smith)

Are Institutions Efficient?

- Wittman: various rules of thumb in certain road traffic situations and comes to the conclusion that only the most efficient rules will be used
- Persistence of inefficient institution.
  - Example: a form of exchange called the *suq* is characterized by high bargaining and measurement costs. These transaction costs could be reduced by major institutional changes
- The market processes of competition did not weed out inferior institutions but that inefficient institutions have proved to be highly stable

Arguments that could explain the persistence of inefficient institutions

- Institutions are inexplicable by functionalist or rationalist ideas. Cultural institutions mainly serve 'symbolic' functions.
    - A different approach points out the signaling properties of certain behavioral regularities (social norms) that *prima facie* do not contribute to efficiency.
- Inequality in bargaining power can have the effect of selecting institutions that primarily serve the interests of the more powerful agents or groups in a society
- Recurrent interaction situations with multiple equilibria, for instance coordination games or iterated prisoner's dilemma games.
- Limited rationality and incomplete information of human agents may be obstacles to attaining efficient institutions
- A lack of appropriate incentives to contribute to the costs

The evolutionary approach to institutions

- Not all institutions are efficient. This originates from evolutionary game theory
- In constructing an evolutionary approach, one must keep in mind that there are important differences between biological and social evolution

The evolutionary approach can be characterized by the following core ideas

- Institutions are the products of interactions within large populations of actors over considerable periods of time.
- These agents are boundedly rational and act under conditions of limited information
- Under appropriate circumstances, the evolutionary process may in the long run realize equilibrium outcomes such that efficient institutions persist.
- The evolutionary path will depend on initial conditions. A particularly important aspect of initial conditions are ‘cultural beliefs’

Thanks for your attention!

It’s time for questions