

**ESSENCE OF ECONOMIC INSTITUTIONS AND THEIR ROLE IN THE  
MARKET ECONOMY SYSTEM**

*Abstract: This article examines the essence of economic institutions and their role in the system of a market economy.*

*Key words: economy, market, economic institutions, market economy*

**СУЩНОСТЬ ЭКОНОМИЧЕСКИХ ИНСТИТУТОВ И ИХ РОЛЬ В  
СИСТЕМЕ РЫНОЧНОГО ХОЗЯЙСТВА**

*Аннотация: В данной статье исследуется суть экономических учреждений и их роль в системе рыночной экономики.*

*Ключевые слова: экономика, рынок, экономические институты, рыночная экономика*

The scientific community has been looking for an explanation of the origins and prerequisites for highly effective economic development for many years. The neoclassical theory, according to institutionalists, currently cannot provide a satisfactory explanation for this phenomenon, since it does not reveal the problem of the mutual dependence of institutional changes and economic growth. The transition to a market economy, carried out in a number of countries, causes inevitable institutional changes, the need to create new market institutions. These problems are extremely topical and poorly studied in modern economic theory. The concept of «economic institutions» was introduced into scientific circulation by the institutional-sociological direction of economic theory. The founders of institutionalism are T. Weblen, his student, specialist in the field of industrial cycles W. Mitchell, theorist, publicist and politician J. Galbraith, economist and developer of global problems J. Tinbergen and others. Institutions are a set of formal and informal rules created by people, acting in the

form of restrictions for economic agents, as well as corresponding to the mechanisms of control over their observance and protection. A control mechanism means a set of means by which it is possible to identify compliance with or violation of a rule, as well as the use of incentive or disincentive sanctions. Institutions are both formal laws (constitutions, legislation, property rights) and informal rules (traditions, customs, codes of conduct). Institutions were created by humans to provide order and eliminate uncertainty in exchange. Such institutions, together with the standard constraints adopted in the economy, determined the set of alternatives, the costs of production and circulation, and, accordingly, the profitability and likelihood of being attracted to economic activity. Modern economic theory of institutions is in its infancy, although much research has been done over the past two decades. In 1993, D. North was awarded the Nobel Prize in Economics as one of the pioneers of the new institutional economics. Institutions are quite controversial concepts. Scientists have not given them a clear definition. Moreover, from an economic perspective, institutions have been defined in different ways. For example, Elster writes that an institution characterizes a law enforcement mechanism that changes behavior using force, which is its most striking aspect. J. Knight believes that institutions are a set of rules that structure social relationships in a special way, the knowledge of which should be shared by all members of a given community. Using the terminology developed by K. Menger, institutions can be defined as public goods of a higher order. This is explained as follows. If institutions provide the production of information necessary to coordinate the actions of individual economic agents, then it is this information that turns out to be a public good. So, the market price, which is the carrier of information, is formed on the basis of the interaction of economic agents, which is built on certain rules. Institutions, providing agents with the necessary information, contribute to the formation of mutually compatible expectations that condition the coordination of their actions and the achievement of mutually beneficial

results. In this case, institutions as a set of rules have the properties of self-sufficiency, voluntariness of compliance, and no external body is required to ensure compliance with the established rule.

Institutions can be viewed as social capital that can change through depreciation and new investment. Formal laws can change quickly, but coercion and formal rules change slowly. And here an example is Russia, which adapts the economic institutions of capitalism, suitable for the market model. Informal rules, norms, customs are not created by the authorities, they often develop spontaneously. Institutions are slow to adapt to changes in the environment, therefore, institutions that were effective become ineffective and remain so for a long time, since it is difficult to turn society from the historical path established long ago. The role of institutions in economic life is extremely important. Institutions reduce uncertainty by structuring everyday life. They organize relationships between people. Institutions define and constrain the set of economic behavioral alternatives that each person has. They include all forms of constraints that humans have created to bring order to human relationships. Institutions are formal and informal. Formal institutions are rules invented by people, and informal institutions are generally accepted conventions and codes of conduct (customs, traditions, etc.). They can be the product of a conscious human design (for example, a constitution) or simply take shape in the process of historical development. Formal institutions are often created to serve the interests of those who control institutional change in a market economy. The pursuit of their own interests may have a negative effect on others. Social institutions that fulfill ideological or spiritual needs often influence social organizations and economic behavior. Attempts by the state to manipulate social institutions, such as norms, for their own purposes have often been unsuccessful. An example is the education of Soviet people in the spirit of the moral code of the builders of communism. Institutional constraints include both prohibiting individuals from performing certain actions, and sometimes instructions under

what conditions certain individuals are allowed certain actions. Therefore, institutions represent the framework within which people interact with each other. An important element of the mechanism of functioning of institutions is that the establishment of the fact of a violation does not require special efforts and that the violator is subject to severe punishment.

Some people succeed by constantly breaking the rules and thus intimidating the enemy (and have a reputation for doing so). How effective such a strategy is depends on the effectiveness of control over the observance of the rules and the severity of the punishment. Sometimes codes of conduct - fair competition - keep the agents of the market economy within the rules, even if violations promise them success in their cause.

The opposite of personalized sharing is a world of specialized addiction in which well-being individual participants depends on a complex structure characterized by individual specialization and, consequently, exchange relationships that have a temporal and spatial extent. With this form of exchange, transaction costs can be high, since problems arise here both with measuring the characteristics of objects of exchange, and providing compliance with the terms of exchange; as a result, a field for deception, violation of agreements, unscrupulousness, etc., since this bodes well.

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