



OPPORTUNISM

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Abstract

Opportunism is an economic problem. Two types of opportunism are explored in this essay. One type is opportunism of the elite and is based on abuse of power or hierarchy. Elite opportunism perverts socioeconomic and political institutions through strategic and wilful actions and misbehaviours of the elite. The word 'corruption' generally refers to this type of opportunism. The second type is opportunism within cooperative relations and is based on abuse or betrayal of trust. This engenders distrust and discourages cooperation which is the basis of economic progress. Each type of opportunism increases transaction costs and leads to market failures. Societies are underdeveloped precisely because too many of their markets fail. Markets fail mainly because the socioeconomic and political institutions are inadequate to discourage opportunism. Incentives get distorted. A vicious cycle ensues in which underdevelopment and other socioeconomic dysfunctions are mutually reinforced.

Keyword:

Introduction

This essay uses the economics concept of transaction costs to formalize relationships between opportunism, market failures and underdevelopment. The analysis is micro-analytic, from the point of view of real-life economic agents as distinguished from stylized agents. The examples are set in the southeast of Nigeria (SE). A maintained assumption is that most people are honourable and entrepreneurial. Honourable persons are non-opportunistic; entrepreneurial persons tend to seek out and exploit arbitrage or opportunities for self-improvement.

Problems arise because opportunism exists or because some persons are dishonourable. To start with, opportunistic behaviours of different types reward the perpetrator but impose costs and negative spillovers on other people. Opportunism can be defined as 'self-seeking with guile' "such as lying, stealing, and cheating ... incomplete or distorted disclosure of information, ... calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse" (Williamson 1995 p.47). In the traditional societies of the SE, opportunists such as thieves and swindlers were considered pariahs and miscreants. Such anti-social behaviours were abhorred. For example, thieves were often subjected to public humiliations, with their names used as curse-words.

Problems can arise also because some persons lack enterprise. Acknowledged that lack of enterprise is a problem behaviour, for example, laziness, indolence, slothfulness, shirking, etc. or "voluntary unemployment ... a sheer disinclination to work or a marked preference for leisure instead of higher earnings" (Blaug 1962, p.14). And even though lack of enterprise can be strategic and even opportunistic, this essay ignores lack of enterprise because laziness, etc. is presumed less predatory and imposes relatively little direct costs on other people.

In this essay, economic problems arise, in the first place, not necessarily because every resident is opportunistic, but because some are (hopefully, only a minority). In the SE, economic problems are not related to hard work or self-motivation, but to the presence of opportunism. Opportunism is worsened, on the one hand, if opportunists are collectively more powerful (intellectually, economically, politically, etc.) than the good people or perceived to be so. On the other hand, opportunism is worsened if opportunists are not always identifiable *à priori* or if identification is costly. If opportunists have enough relative power, they can more or less do as they please. They can endow themselves with immunity with resultant impunity. Opportunists might even be able to alter the legal, moral, ethical, etc. norms of the society. Likewise, human cognitive limitations can inhibit or limit the identification of opportunists. Unidentified miscreants are socially more problematic than identified miscreants because the activities of the identified miscreant can, at least, be anticipated and, therefore, can be countered or neutralized through individual or collective efforts. The menace of the identified criminal can even be insured against because the risks he or she poses can be better and more easily estimated. For example, the presence of a known thief raises alarm and induces extra vigilance and other such appropriate protective or preventive adjustments, including extra locks and barriers, etc. On the other hand, the problem with unidentified miscreants is that potential victims may have invested some level of trust that is the basis of cooperative interactions.

Opportunists thrive because opportunities exist or people take advantage of others because they can. Consider three examples. (a) In situations of explicit or implicit relative power, hierarchy creates opportunities for its abuse. It is not uncommon for opportunists to take undue advantage of their subordinates. (b) Situations of cooperation imply trust, which weakens self-security and vigilance. People 'let their guards down' in the company of family, friends, teammates or other such cooperating partners. Moreover, relative power and cooperation can combine, for example, in principal-agent relationships in which specialization creates the need for cooperation at the same time as it creates exploitable positions for agents who, as specialists or experts, have informational and other advantages. (c) Human limitations and deficiencies create opportunities for opportunists. It is not uncommon for opportunists to take undue advantage of inexperienced, inattentive, illiterate or otherwise handicapped participants. These situations of cooperation, human limitations, relative power, etc. provide opportunities to opportunists by shifting the balance of power to opportunists.

What is the solution? Among other things, good economic and political institutions reduce transaction costs and forestall market failures by discouraging opportunism. Good institutions can be thought of as ones that help motivate and sustain human qualities such as self-motivation, innovation, non-opportunistic behaviours, etc. in key persons and in the majority of the population. On the other hand, paucity of institutions allows opportunists and miscreants to ascend to positions of relative power from where they take advantage of their positions for personal gains, even by skewing the 'playing field' in their own favour. Often they act openly and in collusion with each other. The result is distorted and warped incentives. The conclusion is that a culture of innovation, socioeconomic growth and development requires strong public as well as private economic and political institutions, nurtured by good and strictly-enforced codes-of-conduct that discourage opportunistic abuses of advantage or power. The key question in this essay is how well the institutions of the SE discourage opportunism.

For the rest of the paper, section 2 presents the relevant literature. Section 3 formalizes the problem. Section 4 offers a solution to the problem. The conclusion and references are in section 5 and 6 respectively.

2. The Relevant Literature

Ideal human interactions are voluntary, non-coerced relations presupposing cooperation between participants in order to reap the gains and surpluses arising from specialization, trade, economies of scale and economies of mass-production. Problems arise in sharing the accruing benefits among self-interested participants who may be 'semi-cooperating and semi-competing' with each other. Markets and even society, in general, presume cooperation. But cooperation occurs in the face of human nature such as self-interest. Simon (1972 p.161) calls this concept 'goal-conflict' or "sub-goal pursuit, wherein individuals identify with and pursue

local goals at the possible expense of global goals” (Simon, 1957 quoted in Williamson, 1995, p.11). That is, rational self-interest motivates opportunistic behaviours such that people in business together, who are more or less teammates and partners, pursue efforts to extract and privatize the benefits of their cooperation. This privatization of the benefits of cooperation (or sub-goal pursuits) may be profitable for the perpetrator but discourages other participants because it amounts to betrayal of trust. In this sense, opportunists make cooperation relatively costly for others. These extra costs imposed by self-interested misbehaviours are transaction costs or ‘costs of doing business’ and can explain market failures. Recessions and other forms of economic decline and social strife manifests wherever socio-political and economic institutions are inadequate to control opportunism (Acemoglu and Robinson 2012).

Stated differently, economic agents have flaws, by their very nature. The first types are character flaws or moral deficiencies related to self-interest. Rational persons often attempt to achieve their objectives ‘one way or other,’ ‘whatever it takes,’ or by any means, including predation. There is no guarantee or even a supposition that the strategies or methods a person adopts to achieve his or her objectives coincide with society’s preferred methods. In that sense, self-interest motivates human predatory tendencies manifested as violence, deceit, stealing, pretence, etc. and other forms of opportunism, ‘if that is what it takes’, all in an effort to achieve private objectives (Williamson 1995). Predatory tendencies and opportunism, in general, are motivated by self-interest and manifest wherever the opportunity manifests, even within cooperative environments.

According to Chester Barnard (1938), “Cooperation is jointly determined by social factors and incentive alignments. But ... the social benefits of cooperation are limited” (quoted in Williamson, 1995, p.6). Social benefits of cooperation are limited whenever participants calculate they can gain more or do better by pursuing self-interest within on-going cooperation. Even if solo activities generally do not out-perform cooperative activities in terms of expected total benefits, but an opportunist in a cooperative situation may be able to make more personal gain or profit from self-interested (sub-goal) pursuits than the expected honest share from cooperative (global goal) pursuits. Human tendencies and actions such as free-riding, adverse selection, moral hazards, etc. are similar manifestations of self-interested calculations within cooperative situations. The paradox is that human beings have a natural tendency to compete for scarce resources according to self-interest; at the same time, they gain from cooperation. The question facing society is how to reduce the relative profitability of sub-goal pursuits in existing cooperation? According to Frank Knight (1965, quoted in Williamson p.3 fn.2), “Among the internal problems of [an organization] are the protection of members and adherents against each other’s predatory propensities.” This problem of intra-organizational predation is worsened by efficiency-needs for hierarchy in many cooperative settings, which create additional exploitable relative power situations.

The second relevant type of human flaw is human incapacity or limitations. Note that limitations faced by economic agents can include cognitive, physical, social, organizational, political, etc. types, and often manifest as fallibility, incompetence, impotence, ignorance, laziness, forgetfulness, etc. Limitations arise because humans are not omnipotent (all-powerful), omniscient (all-knowing), or omnipresent (ever-present), etc. For example, the lack of omniscience (or presence of cognitive limitation) implies that one cannot know, imagine or anticipate every eventuality. This has the practical effect, for example, that every eventuality cannot be included on contracts ex-ante, at the time the contract is written. Limited cognitive competence was emphasized by Simon (1978) to explain that contracts are necessarily incomplete, resulting in a need for courts and other adjudicators to interpret the spirit of contracts rather than simply the letter of contracts. Human limitations have the general effect of constraining economic agents from achieving universal optima and are part of what Simon (1957, 1972 and 1978) terms bounded rationality.

There is general agreement among economists regarding the opportunism of the elite. For example, many underdeveloped countries achieve surpluses above subsistence levels of income, but these surpluses are often commandeered by a narrow elite and often squandered in conspicuous consumption (Aghion and Durlauf

2005, Todaro and Smith 2011, Case et al. 2009 p.404). Sometimes, the elite siphon away wealth to foreign countries (Moss 2007 p.96). With their surpluses gone, ordinary people have little incentives to save, invest and innovate. This suggests that underdevelopment may best be explained, not by insufficient natural resources or poor capital formations per se, but by the paucity of institutions that leads to lack of (or wrong) incentives for ordinary citizens (Acemoglu and Robinson 2012). According to Moss (2007 p.96), the best way to sustain economic progress and promote development may be to shift the “political system from one based on patronage to one based on promoting the public interest.” It is not surprising that the most important differences between societies with respect to economic development is the relative degrees of political and economic freedom enjoyed by individual citizens. In underdeveloped countries, the elite inhibits economic freedoms with the result that relevant institutions do not provide the right incentives to help unleash the potential of ordinary people to self-motivate, innovate and develop their society. On the other hand, with political freedom, people would endeavour to constrain their elite (Acemoglu and Robinson 2012, 2013).

In general, economic institutions, through incentives, provide direction to economic agents while government controlled by the elite, in its regulatory capacity and acting on behalf of society, provides ‘adult supervision’ (Samuelson and Nordhaus 2006, p.350). At the same time, there is an understanding that freedom of enterprise, freedom of choice, etc, are free only within legal bounds (McConnell et al. 2009). People can be motivated to ‘keep in line,’ but this requires the existence of an assortment of private institutions (private arbitration, for example) to complement public institutions. Indeed, competition itself can be a regulatory force.

3. Modelling the Problems

This section uses practical examples to make concrete the concepts of opportunism, transactions costs and bounded rationality, and their relation to entrepreneurship, innovation and economic growth. By using practical examples, the interest in this section is in the processes rather than the principles of the market. Consider, for example, the following iconic story about an entrepreneur, in this case, a retail garri seller in a city market in south-eastern Nigeria.

Garri is a starchy food product made from fresh cassava tubers peeled and grated into a grainy wet paste. The paste is tied up in jute bags (sometimes for days) to squeeze out and reduce the wetness. The result of the drying process is semi-dry cassava clumps that are then pan-roasted into dry loose granules. Loose garri granules are usually stored in big bags but displayed for sale in heap-mounds on tables or on the floor. Garri retailing is by volume using ‘cigarette’ cups or ‘painter’ bowls for measurement while garri wholesaling is in bags. Usually, the seller and buyer haggle and bargain until agreement is reached on prices and quantity. Even so, market stories tell of retail garri sellers who cheat their customers. The problem is that regardless of what deals the buyer negotiates with the seller, the buyer does not always receive the amount of *garri* he or she pays for. Garri sellers often use fast flicks of the wrist to scoop up garri with the bottom of the measuring cup. Sometimes, the inside of the measuring cup is padded and soldered to reduce its volume. Other times, although the seller offers the buyer the measuring cups to inspect, cups used to make the sale are often not the ones the buyer inspected, and the buyer usually does not notice the fast switch. Some *garri* sellers are said to go as far as burying ‘altered’ measuring cups inside the heap-mound of *garri* from where the counterfeit cups are retrieved and used as opportunity arises. Whatever the method used by the garri seller, the buyer ends up with less quantity of garri than was agreed to on their verbal contract. Thereby garri seller’s actions impose costs on garri buyers by delivering less garri than is paid for, forcing the buyer to pay relatively more per unit of garri.

The garri seller’s behaviour is an example of the many ways that markets can fail to attain efficiency in the sense that the costs imposed on the buyer can reduce demand for garri and, in some cases, the demand can be reduced even to zero. The result can be a market failure which occurs when buyers are willing and able and sellers are willing and able but yet transaction is not consummated. In retail garri markets in the Southeast, garri sellers are able to take advantage of buyers because of buyers’ inability to verify the contract

performance at the contract execution stage. If the garri buyer could identify the cheating promptly, given the voluntary nature of the contract, the redress would be to cancel the transaction and patronize someone else. But suppose that the buyer could not or did not catch the cheat in action but gets home and discovers the shortage. What is her redress? She can bear the loss but opt not to patronize that particular seller in the future, a reasonable response in scenarios involving huge transportation or travel costs to the buyer. Also, once the garri buyer leaves the scene there arise enforcement difficulties because of verification issues. If cheating is revealed ex-post (for example, after the buyer gets home) the aggrieved buyer has little recourse because a cheated buyer who returns to seek redress could herself be accused of cheating or trying to cheat.

In general, contract execution surprises occur in the first place because of weak contract enforcements, because of poor economic institutions. Coase (1984) would suggest that the garri seller's actions are best understood by studying the mind of the garri seller in the context of the applicable social process, laws and customs he or she faces. That implies studying the ways a garri seller would act in 'real life', within the constraints imposed by existing institutions. The purpose of economic institutions, including laws, customs, professional codes and their enforcement is to provide incentives for participants to behave in a socially appropriate manner. The observed behaviour of the garri seller is determined in part by the effectiveness or otherwise of the incentive system (or institutions) he or she faces in the southeast. For example, a seller would face relatively severe sanctions if he or she was caught stealing from fellow sellers but faces little or no sanctions for duping non-professionals. As a group, the sellers probably know who among them cheats. Yet sellers, as a group, apparently do nothing to stop the malpractice.

The story of the retail garri seller is iconic because similar stories are confirmed in other sectors of the economy. The wholesale garri and rice merchants, automobile mechanic, fuel pump attendants, lecturers, accountants, lawyers, etc. all are involved in similar stories of opportunistic behaviours. The details may be different but the essence is the same. For example, health economists use the term supply-induced-demand to refer to some opportunistic behaviours of physicians (Culyer and Newhouse 2000). The wholesale garri, rice or beans dealers sell their wares in sacks made of jute and employ a cheating technique called re-bagging, whereby the contents of a 50-kilogramme bag are transferred to, and sealed in, a smaller bag with 50Kg printed on it. In some other situations, wholesalers do not bother transferring the merchandise from bag to bag, preferring to use sized needles to push aside the weaving and thread of jute bags in order to run-off some seeds or grains; confident that most customers would not have a chance or inclination to weigh on good scales.

Private institutions (sellers' guild, better business bureau, for example) that presumably enforce professional ethics have failed to protect the rights of the buyer in the case of garri, etc. At the same time, sellers have strong and strictly enforced private rules to protect themselves and each other from all sorts of predatory tendencies ('honour even among thieves'). For example, no garri thief goes free, be the thief a seller or a buyer. In the garri market, anyone caught stealing from a seller is punished severely and hounded out of the market. With regards to buyers, the failure of private institutions is compounded by a failure of public institutions. For example, how effective are government market inspectors in detecting and prosecuting fraud such as the kind perpetrated by garri sellers?

In general, people in relative power positions can organize themselves into oligopolistic coalitions to foster or protect their interests. For example, professors in Nigerian universities, being the elite or top class in academia, were able to secure for themselves guarantees of full salaries for life (even in retirement). Similarly, for other people at the top such as lawmakers, permanent secretaries, judges, etc. In each case, similar deals are not extended to subordinates in government, civil service, judiciary, academia, etc. Whereas the garri sellers or dealers collude among themselves informally, tacitly or otherwise, at the expense of their customers, but their 'collusive oligopolistic rent-seeking' is not formalized. In the case of professors and other professional elite, on the other hand, the rent-seeking is formalized and recognized as legitimate. The difference between the opportunism of the professor and of the garri seller is that professors as a group are

politically more powerful than the garri sellers. In each case, relatively powerful people, professors as well as garri sellers, collude to extract economic rent. But professors are able to formalize or institutionalize their own opportunism because they are better connected. Their opportunistic rent-seeking behaviours become part of moral, social, etc. norms such that lifetime tenures and full pay in retirement no longer seem unethical. Formalized opportunism is a mark of underdevelopment where the political and business elite are often one and the same people (Moss 2007 p.230).

With regards to economic situations of the SE, the combination of opportunism (predatory behaviour), bounded rationality (limitations of participants) and paucity of institutions can lead to market failure. Consider the story of the abolition of 'okada' motorcycle taxis from Enugu city (Tony Adibe, Daily Trust Newspaper, 5 August 2012). A few years ago, the government of Enugu State summarily abolished motorcycle taxis because some of the drivers were using their vehicles for criminal activities. Also, some drivers would not follow the rules of the road, riding on the wrong sides of the roadway; too fast, reckless driving and causing accidents. It is likely that a majority of the drivers were not involved in such undesirable activities. The majority were honourable persons trying to make a living for their families. But there were obviously some bad ones. The honourable drivers had no effective institutions (such as rules of conduct for drivers) that could professionalize their industry and the government did not help the drivers organize their market. The result was free-entry such that any person with a motorcycle could become a taxi driver. There were no background or police checks and no specialized training on courtesy and professionalism. The solution proffered by the government of Enugu state was prohibition. The alternative solution was a regulated market. This is a story of market failure because there are many people willing and able to supply motorcycle taxi services and there are many people willing and able to demand such taxi services, yet the market no longer exists. The market failed because of the inadequacy or non-existence of public and private institutions that could have provided the appropriate positive and negative incentives for professional behaviours in the industry. For example, motorcycle taxis still operate in Kaduna and Kano and many other Nigerian cities larger in size than Enugu.

4. The Solution to the Problem

Economic growth requires economic agents to be productively active and also requires cooperation between participating agents in order to exploit the gains from comparative advantages, specialization, trade and various types of economies. Even society itself is an example of human cooperation. But cooperation is, in general, an idealistic mode of economic organization because the 'cooperators' are naturally self-interested, with sub-goals. According to Williamson (1995, pp.64-65), cooperative arrangements "where trust and good intentions are generally imputed to the membership, are very fragile. Such organizations are easily invaded and exploited by agents who do not possess those qualities. 'High-minded' organizational forms – those which presume trustworthiness, hence are based on non-opportunistic principles – are thus rendered nonviable by the intrusion of unscreened and un-penalized opportunists. Accordingly, those who would have cooperatives succeed must, of necessity, make organizational concessions to the debilitating effects of opportunism. Viable cooperative will attempt to screen against socially recondition, and otherwise penalize opportunistic invaders." Thorsten Veblen (1912, p.24) expresses a similar view that societies based on trust and camaraderie become inefficient ('a certain amiable inefficiency') when faced with fraud or violence.

In designing solutions to the problem of opportunism in the SE, it is to be recognized that arbitrage is often related to outguessing and gaming. This suggests a correlation between entrepreneurship and opportunism. The empirical question is whether people who are relatively highly entrepreneurial, as the people of the SE are presumed to be, might also not be relatively highly opportunistic. Are more enterprising people also more opportunistic, in general? Adam Smith (1937, quoted in Blaug 1962, p.38) thinks so and calls the idea "the mean rapacity, the monopolizing spirit of merchants and manufacturers," that is, entrepreneurs. As a result, Adam Smith believes that entrepreneurs should never be allowed to rule. Plato would concur.

Wherever opportunism (the mean rapacity) exists, people make effort to overcome it. As it is, both the opportunism and the efforts to overcome it impose (transaction) costs on economic agents. These transaction costs, or costs of doing business, are in addition to production, transportation, etc. costs, and can be relatively so large as to cause market failure. According to Kenneth Arrow (1974, 1969), the integrity of trading partners is important in determining level of transaction costs because of the importance of trust in such relationships. The suitability or efficacy of various types of contractual relationships will “vary among cultures according to differences in trust” (Arrow 1969 p.62). That is, transaction costs are inversely proportional to levels of trust in an economy. This is because one of the ways opportunism imposes transaction costs is by introducing risk from ‘behavioural’ uncertainty the magnitude of which depends on how honest people are. People's uncertainties about the behaviours of potential business partners and customers can overwhelm or hinder entrepreneurship and markets. Such uncertainties would lessen if the people acted more honest. People can act honest not necessarily because it is their nature, but because strong institutions force or nurture them to do or be so (Williamson 1995, p.49). In a manner of speaking, institutions can make sinners act like saints; a sinner might behave more or less like a saint depending on situations of sin detection and punishment.

5. Conclusion

The paucity of institutions to inhibit opportunism is the source of most problems facing economic growth and development in south-eastern Nigeria. The inadequacy of economic and political institutions manifests in the form of government inefficiency and ineptitude, possibly wilful, and leads to weak or non-existent governance in the enforcement of existing laws and regulations (Case et al. p.417). The solution is strong property rights and other institutions.

Even if a majority of the people in a community ‘play by the rules,’ if identification is not costless or if the opportunists are relatively powerful such as the elite, the community still needs ways to stop or forestall the opportunism of participants by providing all participants with incentives to ‘play by the rules.’ The best way is for the community to act as if everyone is dishonourable. In general, the problem of opportunism is universal and concerns relative power and is not limited to people in public office. For that reason, this essay has generally avoided the term ‘corruption’ common in the academic literature. Fact is that anybody can abuse relative power; ‘anybody can be corrupt’ (Mohammed 2013). The term ‘opportunism’ represents a more universal view of the abuse of relative power, public or private. In many cases, opportunity for abuse of power is created by the economic system itself. For example, specialization creates implicit expertise and division of labour resulting in an implied need for trade and cooperation. Relative power poses little problem if opportunism does not exist. When opportunism exists, the benefits of cooperation can get commandeered by the elite. In the garri market, for example, sellers have power relative to buyers and are able to hijack the economic surplus from cooperation. The result is a narrow distribution of the benefits of cooperation which discourages cooperation and development.

One conclusion is that in the markets of the southeast, relatively helpless customers are given protection neither by public nor private institutions. Crooked garri sellers and their types are not exposed, not even eventually, and do not face discouraging sanctions. In many cases, the garri sellers (the opportunists), as a group, can form oligopolistic collusions or cabals. But the garri seller is only a metaphor for what is wrong with the economy of the southeast.

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