

Economics 159- Economics of Organizations
Spring 2009
Tu-Thu 12 pm – 1:45 pm
Baskin 372

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Syllabus Econ 159– The Economics of Organizations

This course is an introduction to the economics of organizations. It is a requirement for this course to have taken and passed Economics 100A. The main purpose of this course is to understand how organizations work. While the main focus of the course is applied and empirical, I will refer to theoretical models to generalize the concepts explained in class and make the material easier to understand. Even though, algebra and calculus are not essential to pass this course, they may be necessary to understand a few of the concepts explained during lectures.

COURSE MATERIAL

The course material that I will use in this course consists of both a textbook and several academic and research papers. The textbook for the course is **“Economics, Organizations & Management”** by **Paul Milgrom and John Roberts**. In addition to this, I will use a number of seminal papers in organizational economics that students can find in www.jstor.org. These papers belong to a number of different fields within the Social Sciences and display empirical and theoretical results. Some of these fields are Economics, Political Science, Sociology and Management.

COURSE REQUIREMENTS

The class meets twice a week for lectures. There will be one midterm exam, one written assignment besides a class presentation and a final exam that will count toward the final grade. Grades will be determined as follows:

- Class Attendance & Participation 10%
- One-page bi-weekly write-up 15%
- In-Class Midterm Exam 20%
- In-Class Presentation and 5-page Empirical paper 25%.
- Final Exam 30%.

The in-class midterm exam will take place on April 30th and the in-class presentations will take place on May 14th. Finally, the final exam will take place on Monday June 8th from 4:00 pm to 7:00 pm. I will not offer make-up exams of any kind or adjust deadlines for anybody. If you do not show up to the exam, it will count as a 0 towards your final grade.

My office hours are on Tuesdays from 4 pm to 5 pm. You can also send me an email to rgil@ucsc.edu with your questions or doubts if you wish.

MISCELLANEA

Check the website for the course periodically to see news and announcements about the course. The URL of the website is

<http://people.ucsc.edu/~rgil/teaching.html>

There is a clear rule regarding cheating, copying and similar actions during my exams: if anybody catches you, I will fail you and report the incident to University authorities so that they act consequently with the corresponding University policy.

Do not get the wrong idea, I encourage you to work together for your assignments and study together for your exams, but do not do anything that you may regret during the exams. Let me add that even though I encourage group discussion, each one of you must hand in an individual assignment.

READINGS

I will hand in a list of readings the first day of class. The students will be able to download most readings from the internet. If this was not the case, I will provide copies in class.

For the first lecture, I would advise students to read lightly (enough to understand the main ideas displayed in their introduction) the following two papers:

Coase, Ronald. 1937. "The Nature of the Firm." *Economica*, 4: 386-405.

Williamson, Oliver 1971. "The Vertical Integration of Production: Market Failure Considerations." *American Economic Review*, 61: 112-23.

Supplemental (but not required) readings for the first lecture are:

Gibbons, Robert. 2005a. "Incentives Between Firms (and Within)." *Management Science* 51: 2-17 (Sections 2-4).

Alchian, Armen and Harold Demsetz. 1972. "Production, Information Costs, and Economic Organization." *American Economic Review*, 62: 316-25.

Gibbons, Robert. 2005. "Four Formal(izable) Theories of the Firm?" *Journal of Economic Behavior and Organization* 58: 202-247 (Sections 1-3).

TENTATIVE COURSE STRUCTURE

0. Introduction

- **Brief review of Economics, Statistics and Game Theory concepts**
- **What is an organization? What is organizational economics?**
Learning from Adam Smith and Ronald Coase

1. The Boundary of the Firm

- **Classic Theories**, from Transaction Costs to Incentive Theories via Property Rights
- **Classic Evidence & Recent Evidence**
- **Relational Contracting and Firm Boundaries**
- **Formal and Relational Contracting – Theory & Evidence**
- **Hybrid Governance Structures**

2. Decision-Making in Organizations

- **Authority and Power**
- **Politics and Influence**
- **Culture and Leadership**

3. Employment

- **Pay for Performance: Distortion**
- **Pay for Performance: Discretion**
- **Pay for Performance: Case Discussions**
- **Job Assignment, Skill Development, and Networks**
- **Employment Systems**
- **Careers in Organizations**

4. Structures and Processes

- **What is a Hierarchy Good for? Five Elemental Models of Hierarchy**
- **Theory and Evidence on Firm Structure**
- **Theory and Evidence on Firm Processes**
- **Conglomerates and Corporate Strategy**
- **The Market for Corporate Control**

5. Beyond Firms and Into Other Types of Organizations

- **Order without Law; Government Agencies**
- **States**

6. Review and Conclusions