6/9/2003, *The Wall Street Journal* — Her morning jobs were equally trying. She went dress shopping, stopped into a bank to cash a check and visited a Saturn dealership to look at new cars. After golf, she was headed to Manhattan for dinner at a nice Italian restaurant. All these activities were paid jobs. Her total earnings for the day: about $300. "Can you believe they call this work?" she said......Ms. Voitle has found a new career in the arcane world of dining deals, gift certificates and ”mystery shopping,” where companies pay her to test their products and services. She gets paid to shop, eat at restaurants, drink at bars, travel and even play golf. Last month, she made nearly $7,000 from her various freebie adventures. By the end of the year, she could be making more than she did in investment banking, not counting her steady supply of handouts.
The Procurement Methods

- Spot exchange
- Contract
- Vertical integration
  - Advantages and disadvantages
Specialized Investments as Transaction Costs

- Types of specialized investments
  - Site specificity
  - Physical-asset specificity
  - Dedicated assets
  - Human capital

- Problems with specialized investments
  - Costly bargaining
  - Underinvestment
  - Opportunism and the “hold-up” problem
The Principal-Agent Problem

- Conflicting interests
- Hard to monitor
  - Performance-based
  - Third party auditing — mystery shoppers, ABC, etc.
Forces That Discipline Managers

- Incentive contracts
- External incentives
  - Reputation
  - Takeovers
Solutions

- Profit sharing
- Revenue sharing
- Piece rates
- Time clocks and spot check
homework!!!

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