

Topics in the Economics of Organization

Description: In much of economic literature, the role of the business firm is confined to little more than a “black box,” represented by a set of cost curves, which succeeds in maximizing profits by equating marginal everything to marginal everything else. The economics of organization (or the theory of the firm) essentially tries to pry open that box. Since economics in large part consists of identifying relevant incentive stories (i.e., comparisons of the marginal expected benefits and the marginal expected costs of choices that are faced), we will focus on the incentive stories that seem most important in understanding real world firm behavior and performance. We will use a set of articles for this course. In those articles, our main tasks will be to identify the central incentive stories that are being argued for, to consider how complete or convincing the arguments and evidence presented in favor of those stories are, and to see how they relate to those of the other articles we will consider.

Grading: Grading is based on article presentation and final exam.

Outline:***Transaction Cost Economics: Overview***

1. Oliver E. Williamson, *The Economic Institutions of Capitalism*, 1985, chapter 1.
2. Armen Alchian and Susan Woodward, "The Firm Is Dead; Long Live the Firm: A Review of Oliver E. Williamson's *The Economic Institutions of Capitalism*," *Journal of Economic Literature* 26(1): 65-79, 1988.
3. Oliver E. Williamson, "Transaction Cost Economics," in Claude Menard and Mary M. Shirley, eds., *Handbook of New Institutional Economics*. Springer, 2005.
4. Harold Demsetz, "The Firm in Economic Theory: A Quiet Revolution," *American Economic Review* 87: 426-429, 1997.

The Coasean Approach

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

6. Steven N. S. Cheung, "The Contractual Nature of the Firm," *Journal of Law and Economics* 26: 1-21, 1983.

Moral Hazard, Monitoring, and Measurement Costs

7. Yoram Barzel, "Measurement Costs and the Organization of Markets," *Journal of Law and Economics* 25(1): 27-48, 1982.
8. Armen Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review* 62(5): 777-795, 1972.
9. Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3: 305-360, 1976.
10. Bengt Holmstrom and Paul Milgrom, "Multi-Task Principal-Agent Analyses: Linear Contracts, Asset Ownership and Job Design," *Journal of Law, Economics and Organization* 7: 24-52, 1991.

Asset Specificity

11. Benjamin Klein, Robert G. Crawford, and Armen Alchian, "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," *Journal of Law and Economics* 21(2): 297-326, 1978.
12. Benjamin Klein, "Vertical Integration as Organizational Ownership: The Fisher Body-General Motors Relationship Revisited," *Journal of Law, Economics, and Organization* 4(1): 199-213, 1988.
13. Harold Demsetz, "Vertical Integration: Theories and Evidence," in *Ownership, Control, and the Firm*, 1988.

Empirical Issues in Transaction Cost Economics

14. Paul L. Joskow, "Vertical Integration," in Claude Menard and Mary M. Shirley, eds., *Handbook of New Institutional Economics*. Springer, 2005.
15. Peter G. Klein, "The Make-or-Buy Decisions: Lessons from Empirical Studies," in Claude Menard and Mary M. Shirley, eds., *Handbook of New Institutional Economics*. Springer, 2005.
16. Anne Yvrande-Billon and Stephane Saussier, "Do Organization Choices Matter? Assessing the Importance of Governance through Performance Comparisons," in Harvey S. James, Jr., eds., *New Ideas in Contracting and Organizational Economics Research*. Nova Science Publishers, Inc, 2005.

17. Keith D. Brouthers and Jean-Francois Hennart, "Boundaries of the Firm: Insights From International Entry Mode Research," *Journal of Management* 33: 395-425, 2007.

Incomplete-Contracts Theory

18. Sanford J. Grossman and Oliver D. Hart, "The Costs and Benefits of Ownership: A Theory of Vertical Integration," *Journal of Political Economy* 94: 691-719, 1986.
19. Oliver D. Hart, "Incomplete Contracts and the Theory of the Firm," *Journal of Law, Economics, and Organization* 4(1): 119-140, 1988.
20. Oliver D. Hart, "An Economist's Perspective on the Theory of the Firm," *Columbia Law Review* 89(7): 1757-1774, 1989.
21. Kirsten Foss and Nicolai J. Foss, "Assets, Attributes and Ownership," *International Journal of the Economics of Business* 8: 19-37, 2001.
22. Harold Demsetz, "Review of Oliver Hart, *Firms, Contracts, and Financial Structure*," *Journal of Political Economy* 106: 446-452, 1998.
23. Jean Tirole, "Incomplete Contracts: Where Do We Stand?" *Econometrica* 67(4):741-781, 1999.

Property Rights and Ownership of the Firm

24. Harold Demsetz, "Towards a Theory of Property Rights," *American Economic Review* 57: 347-359, 1967.
25. Eugene F. Fama and Michael C. Jensen, "Separation of Ownership and Control," *Journal of Law and Economics* 26: 301-325, 1983.
26. Harold Demsetz, "The Structure of Ownership and the Theory of the Firm," *Journal of Law and Economics* 26: 375-390, 1983.
27. Harold Demsetz and Kenneth Lehn, "The Structure of Corporate Ownership: Causes and Consequences," *Journal of Political Economy* 93(6): 1155-1177, 1985.
28. Randall Morck, Andrei Shleifer, and Robert W. Vishny, "Management Ownership and Market Valuation: an Empirical Analysis," *Journal of Financial Economics*, 20: 293-315, 1988.
29. Lucian A. Bebchuk, Reinier Kraakman, and George Triantis, "Stock Pyramids, Cross-Ownership, and Dual Class Equity—The Mechanisms and Agency Costs of Separating Control from Cash-Flow Rights," in Randall Morck, eds., *Concentrated Corporate Ownership*, 2000.

30. Harold Demsetz, "Enterprise Control, Wealth, and Economic Development," in *The Economics of the Business Firm: Seven Critical Commentaries*, Cambridge University Press, 1995.

Economic Capabilities and Resource-Based Views

31. Harold Demsetz, *The Economics of the Business Firm*, Cambridge University Press, 1995, chapters 1 and 2.
32. Sidney G. Winter, "On Coase, Competence, and the Corporation," *Journal of Law, Economics, and Organization* 4(1): 163-180, 1988.
33. Richard N. Langlois and Nicolai J. Foss, "Capabilities and Governance: the Rebirth of Production in the Theory of Economic Organization," *Kyklos* 52(2): 201-218, 1999.
34. David J. Teece, Gary Pisano, and Amy Shuen, "Dynamic Capabilities and Strategic Management," *Strategic Management Journal* 18(7): 509-533, 1997.
35. G. B. Richardson, "The Organisation of Industry," *Economic Journal* 82(327): 883-896, 1972.
36. David J. Teece, "Economies of Scope and the Scope of the Enterprise," *Journal of Economic Behavior and Organization* 1(3): 223-247, 1980.

Corporate Governance and Market for Corporate Control

37. Andrei Shleifer and Robert W. Vishny, "A Survey of Corporate Governance," *Journal of Finance* 52: 737-783, 1997.
38. Benjamin E. Hermalin and Michael S. Weisbach, "Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature," *Economic Policy Review* 9: 7-26, 2003
39. John E. Core, Wayne R. Guay, and David F. Larcker, "Executive Equity Compensation and Incentives: A Survey," *Economic Policy Review* 9: 27-50, 2003.
40. Clifford G. Holderness, "A Survey of Blockholders and Corporate Control," *Economic Policy Review* 9: 51-64, 2003.
41. Michael C. Jensen, "The Modern Industrial Revolution, Exit, and the Failure of Internal Control System," *Journal of Finance* 48: 831-880, 1993.
42. Michael C. Jensen, "Takeovers: Their Causes and Consequences," *Journal of Economic Perspectives*, 21-48, Winter 1988.
43. Andrei Shleifer and Robert W. Vishny, "Value Maximization and the Acquisition Process," *Journal of Economic Perspectives*, 7-20, Winter 1988.