

14.282 ORGANIZATIONAL ECONOMICS, I

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TuTh 1:00-2:30, E62-550

Syllabus Version: October 17, 2018

<http://stellar.mit.edu/S/course/14/fa18/14.282/>

Overview

This course is the first half of the year-long doctoral sequence in organizational economics; the second half consists of the half-courses 14.283 and 284, taught in H1 and H2 of the spring. The general exam in organizational economics will cover these two semesters of material. Alternatively, one can create a general exam from 14.282 and the doctoral course in corporate finance, 15.441J.

This course consists of an Introduction, five Modules, and a Conclusion. The Modules are: (I) Agency Theory for Organizational Economics, (II) Property-Rights Theory for Organizational Economics, (III) Organizations as Decision Processes, (IV) Organizational Capabilities, and (V) Organizational Structures & Corporate Strategy.

This year, 282 is largely theoretical—covering a wide range of basic models used not only in organizational economics but in organizational applications in other fields such as development, health, IO, labor, political economy, and trade. Students should therefore be comfortable with (if perhaps not expert in) the core micro theory taught in 14.122 and 124. Contract theory (14.281) is a useful complement but is not a prerequisite. Indeed, for applications-oriented students, 282 may function as a bridge from 124 to 281.

In the spring, the half-course 14.283 will focus almost entirely on empirical work, especially in personnel economics, management, and productivity. In H2, 14.284 will focus on parallels between organizational economics and political economy. For example, not only government agencies but also political parties can be analyzed as organizations; furthermore, models of the political economy of non-democratic regimes have many similarities to models of a principal's power inside a firm.

Deliverables

Grades will be determined by: a take-home midterm (distributed Fri. Oct. 19 and due Tue. Oct. 23) worth 25%; and a final (during exam period, with double emphasis on the material after the midterm) worth 65%; and four graded problem sets collectively worth 10%. Problem sets are intended primarily as an opportunity to practice concepts learned in class, not as playing an important part in grading, so we are happy to accept messy, handwritten solutions and will give generous partial credit to those who clearly have grappled with the problems.

Readings

Most of the readings (other than books) can be found on the Stellar site listed above. This syllabus uses the following acronyms:

HOE: Gibbons, R., and J. Roberts. 2013. R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press. (Accessed via Stellar)

BD: Bolton, P. and M. Dewatripont. 2005. *Contract Theory*. Cambridge, MA: M.I.T. Press.

MWG: Mas-Colell, A., M.D. Whinston, and J.R. Green. 1995. *Microeconomic Theory*. New York: Oxford University Press.

Meetings Outside Class

To arrange an appointment, please e-mail Bob or Michael. Recitations will be scheduled once the class composition settles down.

Outline

Introduction

Lec. 1 (Thu. Sep. 6)	Overview	(PS 0 posted)
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Module I: Agency Theory for Organizational Economics

Lec. 2 (Tue. Sep. 11)	Formal Incentive Contracts	(PS 1 posted)
Lec. 3 (Thu. Sep. 13)	Relational Incentive Contracts	
Lec. 4 (Tue. Sep. 18)	No Incentive Contracts (e.g., “Career Concerns”)	
Lec. 5 (Thu. Sep. 20)	Incentive Systems	(PS 1 due Sep. 24)
Lec. 6 (Tue. Sep. 25)	Case Studies on Incentives	

Module II: Property-Rights Theory for Organizational Economics

Lec. 7 (Thu. Sep. 27)	The Basic Property-Rights Model	(Recit ⁿ PS 1 Sep. 28)
Lec. 8 (Tue. Oct. 2)	Property Rights and Contracts	(PS 2 posted)
Lec. 9 (Thu. Oct. 4)	Transaction-Cost Economics	
Tue. Oct. 9	HOLIDAY	
Lec. 10 (Thu. Oct. 11)	Formal(izable) Theories of the Firm?	(PS 2 due Oct. 15)
Lec. 11 (Tue. Oct. 16)	Further Topics	
Lec. 12 (Thu. Oct. 18)	Case Studies on Property Rights	(Recit ⁿ PS 2 Oct. 19)

Take-home midterm distributed 5pm Fri. Oct. 19 and due 1pm Tue. Oct. 23

Module III: Organizations as Decision Processes

Lec. 13 (Tue. Oct. 23)	Team Theory vs. Organization Theory	(PS 3 posted)
Lec. 14 (Thu. Oct. 25)	Politics & Influence	
Lec. 15 (Tue. Oct. 30)	Formal & Informal Authority	
Lec. 16 (Thu. Nov. 1)	Culture, Language, & Leadership	(PS 3 due Nov. 5)
Lec. 17 (Tue. Nov. 6)	Case Studies on Decision Processes	

Module IV: Organizational Capabilities

Lec. 18 (Thu. Nov. 8)	Persistent Performance Differences	(Recit ⁿ PS 3 Nov. 9)
Lec. 19 (Tue. Nov. 13)	Current and Potential Theories	
Lec. 20 (Thu. Nov. 15)	Case Studies on Capabilities	

Module V: Organizational Structures & Corporate Strategy

Lec. 21 (Tue. Nov. 20)	History of Organizational Structures	(PS 4 posted)
Thu. Nov. 22	HOLIDAY	
Lec. 22 (Tue. Nov. 27)	Five Models of Hierarchy	
Lec. 23 (Thu. Nov. 29)	Delegation	(PS 4 due Dec. 3)
Lec. 24 (Tue. Dec 4)	Multi-Business Firms & Hybrid Orgzns.	
Lec. 25 (Thu. Dec 6)	Case Studies on Org. Structures	(Recit ⁿ PS 4 Dec. 7)

Conclusion

Lec. 26 (Tue. Dec. 11)	Overview
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INTRODUCTION

Lecture 1 (Thu. Sep. 6)

Overview and Classics

(PS 0 posted)

- * R. Gibbons, and J. Roberts (2015), “Organizational Economics” in R. Scott and S. Kosslyn (eds.), *Emerging Trends in the Social and Behavioral Sciences*. New York: Wiley.
<http://web.mit.edu/rgibbons/www/Gibbons%20Roberts%20Emerge%20Trends.pdf>

Classics

- Alchian, A. and H. Demsetz. 1972. “Production, Information Costs, and Economic Organization.” *American Economic Review*, 62: 316-25.
- Arrow, K. 1974. *The Limits of Organization*. New York: W.W. Norton & Co.
- Barnard, Chester. 1938. *The Functions of the Executive*. Cambridge, MA: Harvard University Press.
- Chandler, Alfred. 1962. *Strategy and Structure*. Cambridge, MA: MIT Press.
- Coase, R. 1937. “The Nature of the Firm.” *Economica*, 4: 386-405
- Cyert, R. and J. March. 1963. *A Behavioral Theory of the Firm*. Englewood Cliffs, NJ: Prentice-Hall.
- Jensen, M. and W. Meckling. 1976. “Theory of the firm: Managerial behavior, agency costs and ownership structure.” *Journal of Financial Economics* 3: 305-60.
- Klein, B., R. Crawford, and A. Alchian. 1978. “Vertical Integration, Appropriable Rents and the Competitive Contracting Process.” *Journal of Law and Economics* 21: 297-326.
- March, J. 1962. “The Business Firm as a Political Coalition.” *Journal of Politics* 24: 662-78.
- March, James and Herbert Simon. 1958. *Organizations*. New York, NY: John Wiley & Sons.
- Marschak, J. and R. Radner. 1971. *Economic Theory of Teams*. New Haven, CT: Yale University Press.
- Nelson, R. and S. Winter. 1982. *An Evolutionary Theory of Economic Change*. Cambridge, MA: Harvard University Press.
- Penrose, E. 1959. *The Theory of the Growth of the Firm*. New York: Oxford University Press.
- Pfeffer, Jeffrey. 1981. *Power in Organizations*. New York: Harper Business.
- Pfeffer, Jeffrey and Gerald Salancik. 1978. *The External Control of Organizations: A Resource Dependence Approach*. New York: Harper and Row.
- Schein, Edgar. 1985. *Organizational Culture and Leadership*. San Francisco: Jossey-Bass.
- Simon, Herbert. 1947. *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization*. New York, NY: The Free Press.
- Simon, H. 1951. “A Formal Theory of the Employment Relationship.” *Econometrica* 19: 293-305.
- Wernerfelt, Birger. 1984. “A resource-based view of the firm.” *Strategic Management Journal* 5: 171-80.
- Williamson, O. 1971. “The Vertical Integration of Production: Market Failure Considerations.” *American Economic Review*, 61: 112-23.

MODULE I: AGENCY THEORY FOR ORGANIZATIONAL ECONOMICS

Overviews

- Prendergast, C. 1999. "The Provision of Incentives in Firms." *Journal of Economic Literature* 37: 7-63.
- Gibbons, R. 2005. "Incentives Between Firms (and Within)." *Management Science* 51: 2-17 (Sections 1-4.A).
- Gibbons, R., and J. Roberts. 2013. "Economic Theories of Incentives in Organizations." Chapter 2 in *HOE*.
- Holmstrom, B. 2017. "Pay for Performance and Beyond." *American Economic Review* 107: 1753-77.

Lecture 2 (Tue. Sep. 11)

Formal Incentive Contracts

(PS 1 posted)

Chapter 4 in *BD*, Section 14.B in *MWG*.

- * Holmstrom, B. 1979. "Moral Hazard and Observability." *Bell Journal of Economics* 10: 74-91.
- Holmstrom, B., and P. Milgrom. 1987. "Aggregation and Linearity in the Provision of Intertemporal Incentives." *Econometrica* 55: 597-619.

Multi-task

Jensen, M. and W. Meckling. 1976. "Theory of the firm: Managerial behavior, agency costs and ownership structure." *Journal of Financial Economics* 3: 305-60. [Classic]

- * Holmstrom, B. and P. Milgrom. 1991. "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design." *Journal of Law, Economics and Organization* 7: 24-52.
- Baker, G. 1992. "Incentive Contracts and Performance Measurement." *Journal of Political Economy* 100: 598-614.
- Feltham, G. and J. Xie. 1994. "Performance Measure Congruity and Diversity in Multi-Task Principal/Agent Relations." *The Accounting Review* 69: 429-53.

Multi-party

Chapter 8 in *BD*.

Alchian, A. and H. Demsetz. 1972. "Production, Information Costs, and Economic Organization." *American Economic Review*, 62: 316-25. [Classic]

Lazear, E. and S. Rosen. 1981. "Rank-Order Tournaments as Optimal Labor Contracts." *Journal of Political Economy* 89: 841-64.

- * Holmstrom, B. 1982. "Moral Hazard in Teams." *Bell Journal of Economics* 13: 324-340.
- Bernheim, B.D. and M.D. Whinston. 1986. "Common Agency." *Econometrica* 54: 923-42.

Lecture 3 (Thu. Sep. 13)**Relational Incentive Contracts**

Section 10.4 in *BD*.

Klein, B. and K. Leffler. 1981. "The Role of Market Forces in Assuring Contractual Performance." *Journal of Political Economy* 89: 615-41.

Bull, C. 1987. "The Existence of Self-Enforcing Implicit Contracts." *Quarterly Journal of Economics* 102: 147-59.

Malcomson, J. 2013. "Relational Incentive Contracts." Chapter 25 in *HOE*.

Relational Incentive Contracts

MacLeod, B. and J. Malcomson. 1989. "Implicit Contracts, Incentive Compatibility, and Involuntary Unemployment." *Econometrica* 57: 447-80.

Bernheim, B.D., and M.D. Whinston. 1998. "Incomplete Contracts and Strategic Ambiguity." *American Economic Review* 88: 902-32.

* Levin, J. 2003. "Relational Incentive Contracts." *American Economic Review* 93: 835-57.

Multi-lateral

Levin, J. 2002. "Multilateral Relational Contracting and the Employment Relationship." *Quarterly Journal of Economics* 117: 1075-103.

Board, S. 2011. "Relational Contracts and the Value of Loyalty." *American Economic Review* 101: 3349-67.

Andrews, I. and D. Barron. 2016. "The Allocation of Future Business: Dynamic Relational Contracts with Multiple Agents." *American Economic Review* 106: 2742-59.

Private Information

Fuchs, W. 2007. "Contracting with Repeated Moral Hazard and Private Evaluations." *American Economic Review* 97: 1432-48.

Halac, M. 2012. "Relational Contracts and the Value of Relationships." *American Economic Review* 102: 750-79.

Li, J. and N. Matouschek. 2013. "Managing Conflicts in Relational Contracts." *American Economic Review* 103: 2328-51.

Lecture 4 (Tue. Sep. 18)**No Incentive Contracts (e.g., "Career Concerns")**

Section 10.5 in *BD*.

* Holmstrom, B. 1982. "Managerial Incentive Problems—A Dynamic Perspective." In *Essays in Economics and Management in Honor of Lars Wahlbeck*. Helsinki: Swedish School of Economics. Republished in *Review of Economic Studies* 66 (1999): 169-82.

Dewatripont, M., I. Jewitt and J. Tirole. 1999. "The Economics of Career Concerns, Part I: Comparing Information Structures." *Review of Economic Studies* 66: 183-98.

Dewatripont, M., I. Jewitt and J. Tirole. 1999. "The Economics of Career Concerns, Part II: Application to Missions and Accountability of Government Agencies." *Review of Economic Studies* 66: 199-217.

Meyer, M., and J. Vickers. 1997. "Performance Comparisons and Dynamic Incentives." *Journal of Political Economy* 105: 547-81.

Lecture 5 (Thu. Sep. 20)

Incentive Systems

(PS 1 due Sep. 24)

Holmstrom, B. and P. Milgrom. 1994. "The Firm as an Incentive System." *American Economic Review* 84: 972-91.

- * Holmstrom, B. 1999. "The Firm as a Subeconomy." *Journal of Law Economics and Organizations* 15: 74-102.
- * Baker, G., R. Gibbons, and K. J. Murphy. 1994. "Subjective Performance Measures in Optimal Incentive Contracts." *Quarterly Journal of Economics* 109:1125-56.

Che, Y.-K., and S.-W. Yoo. 2001. "Optimal Incentives for Teams." *American Economic Review* 91: 525-41.

Rayo, L. 2007. "Relational Incentives and Moral Hazard in Teams." *Review of Economic Studies* 74: 937-63.

Gibbons, R., H. Li, J. Li, and S. Venables. 2012. "Lecture Note on Relational Incentive Systems."

Lecture 6 (Tue. Sep. 25)

Case Studies on Incentives

Baker, G. and R. Gil. 2013. "Clinical Papers in organizational Economics." Chapter 5 in *HOE*.

- * Fast, N., and N. Berg. 1975. "The Lincoln Electric Company." Harvard Business School Case #376-028.
- * Stewart, J. 1993. "Taking the Dare." *The New Yorker*, July 26, 1993: 34-39.
- * Weber, K. Seger, and L. Hill. 1995. "Rudi Gassner and the Executive Committee of BMG International (A)." Harvard Business School Case #9-494-055.

MODULE II: PROPERTY-RIGHTS THEORY FOR ORGANIZATIONAL ECONOMICS

Classics and Overviews

Coase, R. 1937. "The Nature of the Firm." *Economica*, 4: 386-405. [Classic]

Simon, H. 1951. "A Formal Theory of the Employment Relationship." *Econometrica* 19: 293-305. [Classic]

Segal, I. and M.D. Whinston, "Property Rights." Chapter 3, Sections 1 and 2, in *HOE*.

Section 11.1 in *BD*.

Lecture 7 (Thu. Sep. 27)**The Basic Property-Rights Model**

Section 11.2 in *BD*.

- * Grossman, S. and O. Hart. 1986. "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration." *Journal of Political Economy* 94: 691-719.

Hart, O., and J. Moore. 1990. "Property Rights and the Nature of the Firm." *Journal of Political Economy* 98: 1119-1158.

Hart, O. 1995. *Firms, Contracts, and Financial Structure*. Oxford: Oxford University Press. Chapters 2-4.

Segal, I. and M.D. Whinston, "Property Rights." Chapter 3, Section 3, in *HOE*.

(Section 22.E in *MWG* on Nash Bargaining Solution.)

Lecture 8 (Tue. Oct. 2)**Property Rights and Contracts****(PS 2 posted)**

Klein, B., R. Crawford, and A. Alchian. 1978. "Vertical Integration, Appropriable Rents and the Competitive Contracting Process." *Journal of Law and Economics* 21: 297-326. [Classic]

- * Aghion, P. and J. Tirole. 1994. "On the Management of Innovation." *Quarterly Journal of Economics* 109: 1185-1207.
- * Baker, G., R. Gibbons, and K J. Murphy. 2002. "Relational Contracts and the Theory of the Firm." *Quarterly Journal of Economics* 117: 39-83.

Lecture 9 (Thu. Oct. 4)**Transaction-Cost Economics**

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

- * Williamson, O. 1973. "Markets and Hierarchies: Some Elementary Considerations." *American Economic Review* 63: 316-25.

Williamson, O. 1975. *Markets and Hierarchies: Analysis and Antitrust Implications*. New York, NY: Free Press, Chapters 4 and 5.

- * Williamson, O. 1979. "Transaction Cost Economics: The Governance of Contractual Relations." *Journal of Law and Economics* 22: 233-61.

Williamson, O. 1983. "Credible Commitments: Using Hostages to Support Exchange." *American Economic Review* 73: 519-40.

Tadelis, S. 2002. "Complexity, Flexibility, and the Make-or-Buy Decision." *American Economic Review Papers & Proceedings* 92: 433-37.

Gibbons, R. 2010. "Transaction-Cost Economics: Past, Present, and Future?" *Scandinavian Journal of Economics* 112: 263-88.

Tadelis, S. and O. Williamson. 2013. "Transaction Cost Economics." Chapter 4 in *HOE*.

*** Tue. Oct. 9: MIT Holiday ***

Lecture 10 (Thu. Oct. 11) Formal(izable) Theories of the Firm? (PS 2 due Oct. 15)

Holmstrom, B. and J. Roberts. 1998. "The Boundaries of the Firm Revisited." *Journal of Economic Perspectives* 12: 73-94

Whinston, M. 2003. "On the Transaction Cost Determinants of Vertical Integration." *Journal of Law, Economics, and Organization* 19: 1-23.

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

Bresnahan, T. and J. Levin. 2013. "Vertical Integration and Market Structure." Chapter 21, Section 2, in *HOE*.

Powell, M. 2015. "An Influence-Cost Model of Organizational Practices and Firm Boundaries." *Journal of Law, Economics, and Organization* 31: 104-42. (see also Module III)

Lecture 11 (Tue. Oct. 16): Further Topics

Property Rights and Private Information

(Section 23.E in *MWG* on Myerson-Satterthwaite 1983)

Cramton, P., R. Gibbons, and P. Klemperer. 1987. "Dissolving a Partnership Efficiently." *Econometrica* 55: 615-32.

Matouschek, N. 2004. "Ex Post Inefficiencies in a Property Rights Model of the Firm." *Journal of Law, Economics, and Organization* 20: 125-47.

Baliga, S. and T. Sjöström. 2017. "A Theory of the Firm based on Haggling, Coordination and Rent-Seeking." <http://www.kellogg.northwestern.edu/faculty/baliga/htm/coord.pdf>.

Segal, I. and M.D. Whinston, "Property Rights." Chapter 3, Section 4, in *HOE*

Shareholders and Bosses in Property-Rights Models

Gans, J. 2005. "Markets for Ownership." *RAND Journal of Economics* 36: 433-45.

He, L. 2016. "Beyond asset ownership: Employment and assetless firms in the property rights theory of the firm." *Journal of Economic Behavior and Organization* 130: 261-73.

Reference Points & Aggrievement

Hart, Oliver. 2008. "Reference Points and the Theory of the Firm." *Economica* 75: 404-11.

- * Hart, O. and J. Moore. 2008. "Contracts as Reference Points." *Quarterly Journal of Economics* 123: 1-48.

Hart O. 2009. "Hold-up, Asset Ownership, and Reference Points." *Quarterly Journal of Economics* 124: 267-300.

Hart, O. and B. Holmstrom. 2010. "A Theory of Firm Scope." *Quarterly Journal of Economics* 125: 483- 48.

All About Contracts?

Alchian and Demsetz (1972). "Production, information costs, and economic organization." *AER* 62: 777-95. [Classic]

Jensen and Meckling (1976). "Theory of the firm: managerial behavior, agency costs and ownership structure." *JFE* 3: 305-60. [Classic]

Cheung (1983). "The contractual nature of the firm." *JLE* 26: 1-21.

Demsetz (1988). "The Theory of the Firm Revisited." *JLEO* 4: 141-61.

Bajari and Tadelis (2001). "Incentives Versus Transaction Costs: A Theory of Procurement Contracts." *Rand* 32: 387-407.

Tadelis (2002). "Complexity, Flexibility, and the Make-or-Buy Decision." *AER* 92: 433-37.

Levin and Tadelis (2010). "Contracting for Government Services: Theory and Evidence from U.S. Cities." *JIE* 58: 507-41

Non-Integration Is Not the Market

Grossman and Helpman (2002). "Integration Versus Outsourcing in Industry Equilibrium." *QJE* 117: 85-120.

Antras (2003). "Firms, Contracts, and Trade Structure." *QJE* 118: 1375-1418.

Antras and Helpman (2004). "Global sourcing." *JPE* 112: 552-80.

Legros and Newman (2008). "Competing for Ownership." *JEEA* 6: 1279-1308.

Legros and Newman (2013). "A Price Theory of Vertical and Lateral Integration." *QJE* 128: 725-70.

Gibbons, Holden, and Powell (2012). "Organization and Information: Firms' Governance Choices in Rational-Expectations Equilibrium." *QJE* 127: 1813-41.

Lecture 12 (Thu. Oct. 18)

Case Studies on Property Rights and Hold-Up

- * Klein, B. 1988. "Vertical Integration as Organizational Ownership: The Fisher Body-General Motors Relationship Revisited." *Journal of Law, Economics, and Organization* 4: 199-213.

Coase, R. 2000. "The Acquisition of Fisher Body by General Motors." *Journal of Law and Economics* 43: 15-31.

Casadesus-Masanell, R., and D. Spulber. 2000. "The Fable of Fisher Body." *Journal of Law and Economics* 43: 67-104.

- * Hunt, Brian and Josh Lerner. 1998. "Xerox Technology Ventures: March 1995." Harvard Business School Case #9-295-127. (From study.net on stellar.)
- * Freeze, K. and G. Pisano. 1991. "Crown Equipment Corporation: Design Services Strategy." Harvard Business School Case #9-991-031. (From study.net on stellar.)

Langlois, Richard. 2018. "The Fisher Body Case and Organizational Economics." Working Paper, Department of Economics, University of Connecticut.

***** Take-home midterm distributed Thu. Oct. 18 & due Mon. Oct. 22 *****

MODULE III: ORGANIZATIONS AS DECISION PROCESSES

Classics

Barnard, Chester. 1938. *The Functions of the Executive*. Cambridge, MA: Harvard University Press.

Simon, Herbert. 1947. *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization*. New York, NY: The Free Press.

March, James and Herbert Simon. 1958. *Organizations*. New York, NY: John Wiley & Sons.

Cyert, Richard and James March. 1963. *A Behavioral Theory of the Firm*. Englewood Cliffs, NY: Prentice-Hall.

Marschak, J. and R. Radner. 1971. *Economic Theory of Teams*. New Haven, CT: Yale University Press.

Arrow, Kenneth. 1974. *The Limits of Organization*. New York: W.W. Norton & Co.

Pfeffer, Jeffrey. 1981. *Power in Organizations*. New York: Harper Business.

Pfeffer, Jeffrey and Gerald Salancik. 1978. *The External Control of Organizations: A Resource Dependence Approach*. New York: Harper and Row.

Schein, Edgar. 1985. *Organizational Culture and Leadership*. San Francisco: Jossey-Bass.

Lecture 13 (Tue. Oct. 23)

Team Theory vs. Organization Theory

(PS 3 posted)

Cohen, M., J. March, and J. Olsen. 1972. "A Garbage Can Model of Organizational Choice." *Administrative Science Quarterly* 17:1-25.

- * Feldman, Martha and James March. 1981. "Information in Organizations as Signal and Symbol." *Administrative Science Quarterly* 26:171-86.
- * Sah, Raj and Joseph Stiglitz. 1986. "The Architecture of Economic Systems: Hierarchies and Polyarchies." *American Economic Review* 76:716-27.

Gibbons, Robert. 2003. "Team theory, garbage cans and real organizations: some history and prospects of economic research on decision-making in organizations." *Industrial and Corporate Change* 4: 753-87.

Modern Team Theory

Dessein, W. and T. Santos. 2006. "Adaptive Organizations." *Journal of Political Economy* 114: 956-95.

Calvó-Armengol, Antoni, Joan de Martí, and Andrea Prat. 2015. "Communication and Influence." *Theoretical Economics* 10: 649-90.

Dessein, Wouter, Andrea Galeotti, and Tano Santos. 2016. "Rational Inattention and Organizational Focus." *American Economic Review* 106: 1522-36.

Luis Garicano and Timothy Van Zandt. 2013. "Hierarchies and the Division of Labor." Chapter 15 in *HOE* (Sections 4 through 7)

Lecture 14 (Thu. Oct. 25)

Politics & Influence

Politics & Influence, Classics

March, James. 1962. "The Business Firm as a Political Coalition." *Journal of Politics* 24: 662-78. [Classic]

- * Milgrom, Paul and John Roberts. 1988. "An Economic Approach to Influence Activities in Organizations." *American Journal of Sociology* 94: S154-S179.

Gibbons, Robert, Niko Matouschek, and John Roberts. 2013. "Decisions in Organizations." Chapter 10 in *HOE* (Sections 1 and 2)

Gibbons, Robert. 2013. "Cyert and March (1963) at Fifty: A Perspective from Organizational Economics." <http://web.mit.edu/rgibbons/www/index.html>.

Politics & Influence, Modern

Rajan, Raghuram and Luigi Zingales. 2000. "The Tyranny of Inequality." *Journal of Public Economics* 76: 521-58.

Callander, Steven. 2008. "A Theory of Policy Expertise." *Quarterly Journal of Political Science* 3: 123-40.

Caillaud, Bernard and Jean Tirole. 2007. "Consensus Building: How to Persuade a Group." *American Economic Review* 97: 1877-900.

Kamenica, Emir and Matthew Gentzkow. 2011. "Bayesian Persuasion." *American Economic Review* 101: 2590-615.

Bonatti, Alessandro and Heikki Rantakari. 2016. "The Politics of Compromise." *American Economic Review* 106: 229-59.

Gibbons, Robert, Niko Matouschek, and John Roberts. 2013. "Decisions in Organizations." Chapter 10 in *HOE* (Sections 3 and 4)

Collusion

Tirole, Jean. 1986. "Hierarchies and Bureaucracies: On the Role of Collusion in Organizations." *Journal of Law, Economics, and Organization* 2: 181-214.

Mookherjee, Dilip. 2013. "Incentives in Hierarchies." Chapter 19 in *HOE* (Sections 2.2 and 3.5)

Bandiera, Oriana, Iwan Barankay, and Imran Rasul. 2009. "Social Connections and Incentives in the Workplace: Evidence from Personnel Data." *Econometrica* 77: 1047-94.

Chassang, Sylvain and Gerard Padró i Miquel. 2016. "Corruption, Intimidation and Whistleblowing: A Theory of Inference from Unverifiable Reports." Working Paper, NYU.

Lecture 15 (Tue. Oct. 30)**Formal & Informal Authority**

Rotemberg, Julio. 1993. "Power in Profit-Maximizing Organizations." *Journal of Economics and Management Strategy* 2: 165-98.

* Aghion, Philippe and Jean Tirole. 1997. "Formal and Real Authority in Organizations." *Journal of Political Economy* 105: 1-29.

* Baker, George, Robert Gibbons, and Kevin J. Murphy. 1999. "Informal Authority in Organizations." *Journal of Law, Economics, and Organization* 15: 56-73.

Van den Steen, Eric. 2010. "Interpersonal Authority in a Theory of the Firm." *American Economic Review* 100: 466-90.

* Rantakari, Heikki. 2012. "Employee Initiative and Managerial Control." *American Economic Journal: Microeconomics* 4: 171-211.

Fehr, Ernst, Holger Herz, and Tom Wilkening. 2013. "The Lure of Authority: Motivation and Incentive Effects of Power." *American Economic Review* 103: 1325-59.

Bolton, Patrick and Mathias Dewatripont. 2013. "Authority in Organizations." Chapter 9 in *HOE*

Lecture 16 (Thu. Nov. 1)**Culture, Language, & Leadership****(PS 3 due Nov. 5)**

- * Kreps, David. 1990. "Corporate Culture and Economic Theory." In J. Alt and K. Shepsle, eds. *Perspectives on Positive Political Economy*. Cambridge University Press.

Ichino, Andrea and Giovanni Maggi. 2000. "Work Environment and Individual Background: Explaining Regional Shirking Differentials in a Large Italian Firm." *Quarterly Journal of Economics* 115: 1057-90.

Weber, Roberto and Colin Camerer. 2003. "Cultural Conflict and Merger Failure: An Experimental Approach." *Management Science* 49: 400-15.

- * Weber, Roberto. 2006. "Managing Growth to Achieve Efficient Coordination in Large Groups." *American Economic Review* 96: 114-26.

Cremer, Jacques, Luis Garicano, Andrea Prat. 2007. "Language and the Theory of the Firm." *Quarterly Journal of Economics* 122: 373-407.

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THANKSGIVING ***

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