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:


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    \((PS 0 \text{ posted})\)

Module I: Agency Theory for Organizational Economics
Lec. 2 (Tue. Sep. 11)    Formal Incentive Contracts    \((PS 1 \text{ posted})\)
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    \((PS 1 \text{ due Sep. 24})\)
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    \((Recit\# \text{ PS 1 Sep. 28})\)
Lec. 8 (Tue. Oct. 2)    Property Rights and Contracts    \((PS 2 \text{ posted})\)
Lec. 9 (Thu. Oct. 4)    Transaction-Cost Economics
Tue. Oct. 9    HOLIDAY
Lec. 10 (Thu. Oct. 11)    Formalizable Theories of the Firm?    \((PS 2 \text{ due Oct. 15})\)
Lec. 11 (Tue. Oct. 16)    Further Topics
Lec. 12 (Thu. Oct. 18)    Case Studies on Property Rights    \((Recit\# \text{ PS 2 Oct. 19})\)

**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    \((PS 3 \text{ posted})\)
Lec. 14 (Thu. Oct. 25)    Politics & Influence
Lec. 15 (Tue. Oct. 30)    Formal & Informal Authority
Lec. 16 (Thu. Nov. 1)    Culture, Language, & Leadership    \((PS 3 \text{ due Nov. 5})\)
Lec. 17 (Tue. Nov. 6)    Case Studies on Decision Processes

Module IV: Organizational Capabilities
Lec. 18 (Thu. Nov. 8)    Persistent Performance Differences    \((Recit\# \text{ PS 3 Nov. 9})\)
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    \((PS 4 \text{ posted})\)
Thu. Nov. 22    HOLIDAY
Lec. 22 (Tue. Nov. 27)    Five Models of Hierarchy
Lec. 23 (Thu. Nov. 29)    Delegation    \((PS 4 \text{ due Dec. 3})\)
Lec. 24 (Tue. Dec 4)    Multi-Business Firms & Hybrid Orgzns.
Lec. 25 (Thu. Dec 6)    Case Studies on Org. Structures    \((Recit\# \text{ PS 4 Dec. 7})\)

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

Lecture 1 (Thu. Sep. 6) Overview and Classics (PS 0 posted)


Classics


MODULE I: AGENCY THEORY FOR ORGANIZATIONAL ECONOMICS

Overviews


Lecture 2 (Tue. Sep. 11)  Formal Incentive Contracts  (PS 1 posted)

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


Multi-task


Multi-party

Chapter 8 in *BD*.


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

Section 10.4 in BD.


Malcomson, J. 2013. “Relational Incentive Contracts.” Chapter 25 in HOE.

Relational Incentive Contracts


Multi-lateral


Private Information


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

Section 10.5 in BD.


**Lecture 5 (Thu. Sep. 20)  Incentive Systems  (PS 1 due Sep. 24)**


**Lecture 6 (Tue. Sep. 25)  Case Studies on Incentives**


**MODULE II: PROPERTY-RIGHTS THEORY FOR ORGANIZATIONAL ECONOMICS**

**Classics and Overviews**


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.


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)


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


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

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


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

Property Rights and Private Information

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


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

Shareholders and Bosses in Property-Rights Models


Reference Points & Aggrievement


All About Contracts?


Non-Integration Is Not the Market


Lecture 12 (Thu. Oct. 18) Case Studies on Property Rights and Hold-Up


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

MODULE III: ORGANIZATIONS AS DECISION PROCESSES

Classics


Lecture 13 (Tue. Oct. 23) Team Theory vs. Organization Theory (PS 3 posted)


**Modern Team Theory**


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**


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


**Politics & Influence, Modern**


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


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


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


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)


Hermalin, Benjamin. 2013. “Leadership and Corporate Culture.” Chapter 11 in HOE (Section 3)

Camerer, Colin and Roberto Weber. 2013. “Experimental Organizational Economics.” Chapter 6 in HOE (Section 5)

Leadership


Hermalin, Benjamin. 2013. “Leadership and Corporate Culture.” Chapter 11 in HOE (Section 2)

Camerer, Colin and Roberto Weber. 2013. “Experimental Organizational Economics.” Chapter 6 in HOE (Section 6)

Lecture 17 (Tue. Nov. 6) 

Case Studies on Decision-Making in Organizations


MODULE IV: ORGANIZATIONAL CAPABILITIES

Classics and Overviews


**Lecture 18 (Thu. Nov. 8)**  
**Persistent Performance Differences**  
(PS 4 posted)


**Lecture 19 (Tue. Nov. 13)**  
**Current and Potential Theories**


**Lecture 20 (Thu. Nov. 15)**  
**Case Studies on Capabilities**


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**MODULE V: ORGANIZATIONAL STRUCTURES & CORPORATE STRATEGY**

**Classics and Overviews**


**Lecture 21 (Tue. Nov. 20) History of Organizational Structures (PS 4 posted)**


*** Thu. Nov. 22 THANKSGIVING ***

**Lecture 22 (Tue. Nov. 27) Five Models of Hierarchy**

*Hierarchical Information Processing*


*Hierarchical Resource Allocation (and coordination)*


*Hierarchical Monitoring*


Mookherjee, Dilip. 2013. “Incentives in Hierarchies.” Chapter 19 in *HOE* (Section 2.1)

*Hierarchical Problem Solving*

Garicano, Luis and Timothy Van Zandt. 2013. “Hierarchies and the Division of Labor.” Chapter 15 in *HOE* (Sections 1-3)

Hierarchical Decision Rights


Lecture 23 (Thu. Nov. 29) Delegation (PS 4 due Dec. 3)

Gibbons, Robert, Niko Matouschek, and John Roberts. 2013. “Decisions in Organizations.” Chapter 10 in *HOE* (Section 5)

Mookherjee, Dilip. 2013. “Incentives in Hierarchies.” Chapter 19 in *HOE* (Section 4)

One Agent


Multiple Agents


**Lecture 24 (Tue. Dec. 4)**  
Multi-Business Firms & Hybrid Organizations


Mookherjee, Dilip. 2013. “Incentives in Hierarchies.” Chapter 19 in *HOE* (Section 5)

Roberts, John and Garth Saloner. 2013. “Strategy and Organization.” Chapter 20 in *HOE* (Sections 3 and 4)

**Hybrid Organizational Forms**


Ménard, Claude. 2013. “Hybrid Modes of Organization: Alliances, Joint Ventures, Networks, and Other Strange Animals.” Chapter 26 in *HOE*

**Lecture 25 (Thu. Dec. 6)**  
Case Studies on Organizational Structures & Corporate Strategy

