Overview

This course is the first half of the year-long doctoral sequence in organizational economics (OE); the second half consists of the half-courses 14.283 and 284, taught in H3 and H4 in the spring. Alternatively, one can create a major field from 14.282 and the doctoral course in corporate finance, 15.441J.

This course consists of an Introduction, a Conclusion, and five Modules: (I) Agency Theory for OE, (II) Property-Rights Theory for OE, (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. For one attempt to describe the overarching perspective of these models (and why they apply across many fields), see Gibbons (2020) cited in Lecture 1.

Given the theoretical focus of the course, students should be comfortable with 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 meet in H3 and provide a mix of theory and evidence on somewhat more specialized and advanced topics in organizational economics. In H4, 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 5pm Fri. Oct. 9 and due 1pm Wed. Oct. 14) worth 45%; a final (during exam period, covering the material after the midterm) worth 45%; and four graded problem sets collectively worth 10%. Problem sets are an opportunity to practice concepts learned in class, so they play a small part in grading and 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 Canvas site listed above. This syllabus uses the following acronyms:


Meetings

Lectures will be online—please see the Canvas site for details. Recitations will be Fridays 2:30-4:00 in E51-145 and simulcast on Zoom. To arrange an appointment, please e-mail Bob or Charles or Roberto.
Outline

Introduction

Lec. 1 (Tue. Sep. 1) Overview (Angelucci & Gibbons) (PS 0 posted)

Module I: Agency Theory for Organizational Economics

Lec. 2 (Thu. Sep. 3) Formal Incentive Contracts (Angelucci) (PS 1 posted)
Lec. 3 (Tue. Sep. 8) Relational Incentive Contracts (Angelucci)
Lec. 4 (Thu. Sep. 10) Career Concerns (Angelucci) (PS 1 due Sep. 14)
Lec. 5 (Tue. Sep. 15) Incentive Systems (Gibbons)
Lec. 6 (Thu. Sep. 17) Case Studies on Incentives (Gibbons) (Recit PS 1 Sept. 18)

Module II: Property-Rights Theory for Organizational Economics

Lec. 7 (Tue. Sep. 22) Basic Property-Rights Model (Angelucci) (PS 2 posted)
Lec. 8 (Thu. Sep. 24) Property Rights and Contracts (Angelucci)
Lec. 9 (Tue. Sep. 29) Formal(izable) Theories of the Firm? (Angelucci)
Lec. 10 (Thu. Oct. 1) Transaction-Cost Economics (Gibbons) (PS 2 due Oct. 5)
Lec. 11 (Tue. Oct. 6) Further Topics (Gibbons)
Lec. 12 (Thu. Oct. 8) Case Studies on Property Rights (Gibbons) (Recit PS 2 Oct. 9)

Take-home midterm distributed 5pm Fri. Oct. 9 and due 1pm Wed. Oct. 14

Tue. Oct. 13 Monday classes at MIT

Module III: Organizations as Decision Processes (+ video on Org Theory)

Lec. 13 (Thu. Oct. 15) Team Theory (Angelucci) (PS 3 posted)
Lec. 14 (Tue. Oct. 20) Politics & Influence, I (Angelucci)
Lec. 15 (Thu. Oct. 22) Politics & Influence, II (Angelucci)
Lec. 16 (Tue. Oct. 27) Formal & Informal Authority (Angelucci)
Lec. 17 (Thu. Oct. 29) Culture and Leadership (Gibbons) (PS 3 due Nov. 2)
Lec. 18 (Tue. Nov. 3) Case Studies on Decision Processes (Gibbons)

Module IV: Organizational Capabilities

Lec. 19 (Thu. Nov. 5) Persistent Performance Differences (Gibbons) (Recit PS 3 Nov. 6)
Lec. 20 (Tue. Nov. 10) Current and Potential Theories (Gibbons)
Lec. 21 (Thu. Nov. 12) Case Studies on Capabilities (Gibbons)

Module V: Organizational Structures & Corporate Strategy (+ videos on Chandler, Hybrids)

Lec. 22 (Tue. Nov. 17) Five Models of Hierarchy (Angelucci) (PS 4 posted)
Lec. 23 (Thu. Nov. 19) Delegation & Communication, I (Angelucci)
Nov. 23-27 Thanksgiving Break
Lec. 24 (Tue. Dec 1) Delegation & Communication, II (Angelucci)
Lec. 25 (Thu. Dec 3) Case Studies on Org. Structures (Gibbons) (PS 4 due Dec. 4)

Conclusion

Lec. 26 (Tue. Dec 8) Summary (Angelucci & Gibbons) (Recit PS 4 Dec. 11)

Three-hour final exam during exam period, Dec. 14 – 18.

INTRODUCTION
Lecture 1 (Tue. Sep. 1) Overview (Angelucci & Gibbons) (PS 0 posted)


Classics


MODULE I: AGENCY THEORY FOR ORGANIZATIONAL ECONOMICS

Overviews


Lecture 2 (Thu. Sep. 3)  Formal Incentive Contracts (Angelucci)  (PS 1 posted)
Chapter 4 in *BD*, Section 14.B in *MWG*.


Multi-task


Multi-party

Chapter 8 in *BD*.


Lecture 3 (Tue. Sep. 8)  
Relational Incentive Contracts (Angelucci)

Section 10.4 in *BD*.


**Relational Incentive Contracts**


**Multi-lateral**


**Private Information**


Lecture 4 (Thu. Sep. 10)  
Career Concerns (Angelucci)  
(PS 1 due Sep. 14)

Section 10.5 in *BD*.


**Lecture 5 (Tue. Sep. 15) Incentive Systems (Gibbons)**


**Lecture 6 (Thu. Sep. 17) Case Studies on Incentives (Gibbons)**


**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 (Tue. Sep. 22)  The Basic Property-Rights Model (Angelucci)  (PS 2 posted)**

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 (Thu. Sep. 24)  Property Rights and Contracts (Angelucci)**


**Lecture 9 (Tue. Sep. 29)  Formal(izable) Theories of the Firm? (Angelucci)**


Lecture 10 (Thu. Oct. 1)  Transaction-Cost Economics (Gibbons)  (PS 2 due Oct. 5)


Lecture 11 (Tue. Oct. 6):  Further Topics (Gibbons)

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**


***Tue. Oct. 13: Monday classes at MIT***

**Lecture 12 (Thu. Oct. 8) Case Studies on Property Rights and Hold-Up (Gibbons)**


*** Take-home midterm posted 5pm Fri. Oct. 9 & due 1pm Wed. Oct. 14 ***

**MODULE III: ORGANIZATIONS AS DECISION PROCESSES**

*Classics*


**Lecture 13 (Thu. Oct. 15) Team Theory (Angelucci + Gibbons video on Org Theory) (PS 3 posted)**


Modern Team Theory


Classics & Overviews


Gibbons, R., N. Matouschek, and J. 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 16 (Tue. Oct. 27)  Formal & Informal Authority (Angelucci)**


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

**Lecture 17 (Thu. Oct. 29)  Culture and Leadership  (Gibbons)  (PS 3 due Nov. 2)**


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 18 (Tue. Nov. 3) Case Studies on Decision-Making in Organizations (Gibbons)**


**MODULE IV: ORGANIZATIONAL CAPABILITIES**

*Classics and Overviews*


**Lecture 19 (Thu. Nov. 5) Persistent Performance Differences (Gibbons)**


Lecture 20 (Tue. Nov. 10)  Current and Potential Theories (Gibbons)


Lecture 21 (Thu. Nov. 12) Case Studies on Capabilities (Gibbons)


MODULE V: ORGANIZATIONAL STRUCTURES & CORPORATE STRATEGY

Classics and Overviews


Lecture 22 (Tue. Nov. 17) Five Models of Hierarchy (Angelucci) (PS 4 posted)

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. 19)  Delegation and Communication, I (Angelucci)

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)


Communication and Control


*** Nov. 23-27  THANKSGIVING BREAK ***

Lecture 24 (Tue. Dec 1)  Delegation and Communication, II (Angelucci)

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


**Multi-Product Firms**

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 3) Case Studies on Organizational Structures & Corporate Strategy (Gibbons)**


**Lecture 26 (Tue. Dec 8) Conclusion (Angelucci & Gibbons)**