

## 14.282 ORGANIZATIONAL ECONOMICS, I

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*Syllabus Version: November 11, 2020*

<https://canvas.mit.edu/courses/3416/>

TuTh 1:00-2:30 (i.e., 1:10-2:20)

### 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:

*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 Canvas)

*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

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<sup>n</sup> PS 1 Sep. 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<sup>n</sup> 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<sup>n</sup> 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<sup>n</sup> 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)**

- \* 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>
- Gibbons, R. 2020. “Visible Hands: Governance of Value Creation—Within Firms and Beyond.” *American Economic Review Papers & Proceedings* 110: 172-6.

*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, C. 1938. *The Functions of the Executive*. Cambridge, MA: Harvard University Press.
- Chandler, A. 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, J. 1981. *Power in Organizations*. New York: Harper Business.
- Pfeffer, J. and G. Salancik. 1978. *The External Control of Organizations: A Resource Dependence Approach*. New York: Harper and Row.
- Schein, E. 1985. *Organizational Culture and Leadership*. San Francisco: Jossey-Bass.
- Simon, H. 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, B. 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 (Thu. Sep. 3)****Formal Incentive Contracts (Angelucci)****(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 (Tue. Sep. 8)****Relational Incentive Contracts (Angelucci)**

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

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

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.

Bar-Isaac, H. (2007), Something to prove: reputation in teams. *The RAND Journal of Economics*, 38: 495-511.

Prendergast, Canice and Lars Stole (1996). Impetuous Youngsters and Jaded Old-Timers: Acquiring a Reputation for Learning," *Journal of Political Economy* 104(6), 1105-1134.

### **Lecture 5 (Tue. Sep. 15)**

### **Incentive Systems (Gibbons)**

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 (Thu. Sep. 17)**

### **Case Studies on Incentives (Gibbons)**

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.
- \* Seger Weber, K., 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]

Hart, O. 2017. "Incomplete Contracts and Control." *American Economic Review* 107: 1731-52.

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*.

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

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

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

- 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*.

**Lecture 11 (Tue. Oct. 6):****Further Topics (Gibbons)***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 Hagglng, 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, O. 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, A., and H. Demsetz. 1972. "Production, information costs, and economic organization." *American Economic Review* 62: 777-95. [Classic]

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]

Cheung, S. 1983. "The contractual nature of the firm." *Journal of Law and Economics* 26: 1-21.

Demsetz, H. 1988. "The Theory of the Firm Revisited." *Journal of Law, Economics, and Organization* 4: 141-61.

Bajari, P., and S. Tadelis. 2001. "Incentives Versus Transaction Costs: A Theory of Procurement Contracts." *Rand Journal of Economics* 32: 387-407.

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

Levin, J., and S. Tadelis. 2010. "Contracting for Government Services: Theory and Evidence from U.S. Cities." *Journal of Industrial Economics* 58: 507-41

*Non-Integration Is Not the Market*

Grossman, G., and E. Helpman. 2002. "Integration Versus Outsourcing in Industry Equilibrium." *Quarterly Journal of Economics* 117: 85-120.

Antras, P. 2003. "Firms, Contracts, and Trade Structure." *Quarterly Journal of Economics* 118: 1375-1418.

Antras, P., and E. Helpman. 2004. "Global sourcing." *Journal of Political Economy* 112: 552-80.

Legros, P., and A. Newman. 2008. "Competing for Ownership." *Journal of European Economic Association* 6: 1279-1308.

Gibbons, R., R. Holden, and M. Powell. 2012. "Organization and Information: Firms' Governance Choices in Rational-Expectations Equilibrium." *Quarterly Journal of Economics* 127: 1813-41.

Legros, P., and A. Newman. 2013. "A Price Theory of Vertical and Lateral Integration." *Quarterly Journal of Economics* 128: 725-70.

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

**Lecture 12 (Thu. Oct. 8)**

**Case Studies on Property Rights and Hold-Up (Gibbons)**

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

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

### MODULE III: ORGANIZATIONS AS DECISION PROCESSES

#### *Classics*

- Barnard, C. 1938. *The Functions of the Executive*. Cambridge, MA: Harvard University Press.
- Simon, H. 1947. *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization*. New York, NY: The Free Press.
- March, J., and H. Simon. 1958. *Organizations*. New York, NY: John Wiley & Sons.
- Cyert, R., and J. 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, K. 1974. *The Limits of Organization*. New York: W.W. Norton & Co.
- Pfeffer, J. 1981. *Power in Organizations*. New York: Harper Business.
- Pfeffer, J., and G. Salancik. 1978. *The External Control of Organizations: A Resource Dependence Approach*. New York: Harper and Row.
- Schein, E. 1985. *Organizational Culture and Leadership*. San Francisco: Jossey-Bass.

#### **Lecture 13 (Thu. Oct. 15)**

#### **Team Theory (Angelucci + Gibbons video on Org 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, M., and J. March. 1981. "Information in Organizations as Signal and Symbol." *Administrative Science Quarterly* 26:171-86.
- \* Sah, R., and J. Stiglitz. 1986. "The Architecture of Economic Systems: Hierarchies and Polyarchies." *American Economic Review* 76:716-27.

Gibbons, R. 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, A., J. de Marti, and A. Prat. 2015. "Communication and Influence." *Theoretical Economics* 10: 649-90.

Dessein, W., A. Galeotti, and T. Santos. 2016. "Rational Inattention and Organizational Focus." *American Economic Review* 106: 1522-36.

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

### **Lecture 14 (Tue. Oct. 20) & Lecture 15 (Thu. Oct. 22) Politics & Influence (Angelucci)**

#### *Classics & Overviews*

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

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

Gibbons, R., N. Matouschek, and J. Roberts. 2013. "Decisions in Organizations." Chapter 10 in *HOE* (Sections 1 and 2)

Gibbons, R. 2020. "March-ing Towards Organizational Economics." *Industrial and Corporate Change* 29: 89-94.

#### *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*

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**THANKSGIVING BREAK \*\*\***

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