

The Economics of Organization (8 ECTS)

1. Course Description

The success of firms hinge critically on how well they are organized. Likewise, the wealth of nations probably depend more on institutional quality than on physical resources. In this course, we want to explain the institutions that we observe and the roles they play. We will discuss questions such as:

How can we explain the variety of contractual practices that we observe in markets?

How can we understand the many different organizational forms that exist?

When should there be high-powered incentives, and when not?

What are the costs and benefits of public ownership?

What is the role of legal institutions in creating prosperity?

What is *trust* and why it is so important?

2. Learning Outcomes

Knowledge and understanding

The course delivers an introduction to theories of organizations and strategic interaction that rely on economic thinking. Students familiarize with these theoretical approaches, to guide them to the research frontier in selected topics, and to let them explore open and interesting research questions, both theoretical and empirical, on their own. We will study relationships within firms (authority, incentives, delegation), between firms (formal and informal contracting, vertical and horizontal integration, strategic alliances, firm networks and groups), and beyond firms (organizations and institutions, economic governance). We will review the main economic theories that explain the existence, scale, and scope of firms (transaction costs economics, property rights theory, agency theory, and adaption theory) and study the impact of an organization's form (for-profit, nonprofit, public or cooperative) on its decisions.

The virtue of the economics approach is in establishing a framework for thinking about what might be possible for the organization and in producing well-reasoned conclusions about what efficient structures look like. This framework is the focus of the course.

However, economists are not the only ones who think hard about organizational issues. Indeed, these questions are often thought to be what gives management its purpose and sometimes the same issues are addressed by the leadership of organizations members. Thus organization issues are part and parcel of management education and quite often are part of leadership training as well.

Applying knowledge and understanding

The readings are drawn from the scientific literature in economics. In some cases, only part of the book/article will be assigned. Simple example may be provided to illustrate the concepts and results that are presented. In general, it is likely to be difficult to understand the readings without attending the lectures and taking good notes. This is why Students are required to attend each class session and participate fully in class discussions. As Woody Allen goes: "Eighty percent of success is showing up." Readings must be completed prior to each class.

Some of the readings involve calculus. However, knowledge of calculus is not a prerequisite for this course. However, students are expected to be able to reformulate the problem as an informal, graphical argument.

Making judgements

Students should be able to reflect on the method to use while adopting planning and control systems as a viable means to foster empowerment, accountability, communication and learning, particularly in organizations operating in a complex and dynamic environment.

Communication

Students will be asked to present and discuss in class the relevant literature.

3. Course Content

The course is divided into three parts:

g) Introduction and Background

- Comparative Development
- Culture and Economic Outcome
- The Quality of Government
- Law and Property Rights
- Institutions
- Rich and Poor Countries

h) Incentive and Coordination

- Commitment Problem
- Economic Governance
- Promises, Threats, Fairness and Retaliation
- Bargaining
- Self-Command
- Social Institutions
- Corporate Culture
- Trust and Growth
- Power

i) Asymmetric Information and Firm Boundaries

- Disorganization
- Hierarchies
- Common Pool Problem
- Principals and Agents
- Make vs Buy
- Ownership and Control
- Contract Duration
- Teams

4. Course Design

The course is comprised of lectures, seminars, group discussions and students' presentations.

5. Student's Evaluation

During the course, each student will be responsible for developing a presentation on one of week's readings. The presentation should not be a summary of the assigned material. Rather, the student should outline the analytical approaches evident in the readings, critically review the major findings, and assess primary strengths and weaknesses in the week's literature. At the end of the course, there is a written final examination.

Grades will be determined as following:

Class participation 25%

Presentation during class 25%

Final 50%

An ECTS grade is provided to the student at the end of the course according to the A–F scale. Students not successfully fulfilling all the course requirements within the regular time frame have the option of a re-sit the following semester.