Syllabus

MECS 475: The Economics of Organizations

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Michael Powell
mike-powell@kellogg.northwestern.edu

Course Description and Objectives

This course provides an introduction to Organizational Economics. In addition to covering more recent papers, we will also discuss several classic papers. One goal of the course is that by the end of the quarter, when faced with an empirical phenomenon, you should be able to quickly write down a model to explain it.

To reach this goal, the lectures will focus more on models’ key assumptions than on their mechanics. To get more out of the class, you should always have in mind the following questions when we discuss a model. What are the key assumptions of the model that drive its main results? How reasonable are these assumptions? What would happen to the model if these assumptions are modified?

Requirements

There are three deliverables for credit in the course: two model-development essays and the choice between one in-class presentation of a paper from the syllabus or a short write-up of the results in that paper. Your grade will be based in equal measure on the model-development essays and your class participation.

The model-development essays should select one aspect from one case and do three things: first, briefly describe the chosen aspect of the case; second, assess the extent to which existing theory is or is not consistent with this chosen aspect; and, third, briefly sketch the beginnings of a model that would be consistent with this chosen aspect. These model-development essays should be just short sketches—three to five pages.

Timing

The class will meet weekly on Wednesdays from 9:00am to 12:00pm. The class is currently scheduled to meet in Jacobs 619 (the Strategy conference room).
Course Overview

The course is organized around 7 topics. I might still make changes to the topics and readings but the next few pages should give you a pretty good idea of what we will cover in class. The topics are:

Topic 1: Incentives in Organizations (2 weeks)
Topic 2: Boundaries of the Firm (2 weeks)
Topic 3: Careers in Organizations (1 week)
Topic 4: Persistent Performance Differences (1 week)
Topic 5: Competition and Organization (1 week)
Topic 6: Relational Incentive Contracts (1 week)
Topic 7: Decision Making in Organizations (2 weeks)
Topic 1: Incentives in Organizations
(2 weeks)

Overview

Formal Incentive Contracts

Risk-Incentives Trade-off

Limited Liability

Multiple Tasks and Misaligned Performance Measures


Contracts with Externalities

No Contracts

Career Concerns

Relational Incentive Contracts
Topic 2: Boundaries of the Firm
(2 weeks)

Overview


Papers

Transaction Cost Economics

Property Rights

Incentive Systems

Influence Activities

Empirical Papers


Foundations

Topic 3: Careers in Organizations
(1 week)

Overview


Papers

Internal Labor Markets


Personnel Policies

Topic 4: Persistent Performance Differences
(1 week)

Overview


Implications, Management Practices, and Theories

Misallocation

Management Practices


Theories

Topic 5: Competition and Organization
(1 week)

Overview


Theories

Competition and Incentives

Information and Firm Organization

Price Levels and Firm Organization

Competitive Rents and Firm Productivity
Topic 6: Relational Contracts  
(1 week)

**Overview**


**Relational Incentive Contracts**

*Imperfect Public Monitoring*


*Limited Transfers*


*Subjective Performance Measures*


*Persistent Private Information*


*Imperfect Private Monitoring and Multiple Agents*


Topic 7: Decision Making in Organizations
(2 weeks)

Overview


Topics

Authority


Delegation


Potential Papers for In-Class Presentations
More will be added


