Syllabus

MECS 570-1
Organizational Economics I: Organizations and Markets

Fall 2019

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Course Description and Objectives

Most activity in the modern economy takes place within, or is facilitated by, organizations. This is the first course in a two-course sequence in Organizational Economics that focuses on developing and deepening our understanding of firms and other organizations. Our central premise is that organizations are messes but not mysteries: many firm practices can be fruitfully understood as the outcome of strategic interactions among individuals who are faced with internal and external constraints.

This course focuses on theories of incentives, adaptation, and firm boundaries, with the ultimate aim of understanding how firm practices affect and are affected by the broader economy. 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 two deliverables for credit in the course: a model-development essay 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.

The model-development essay should select one aspect from one case (or another source of inspiration) 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. The model-development essay should be just a short sketch—three to five pages.
Timing

The class will meet on Mondays from 9:00am to 11:45am in KGH 4301.

Course Overview

The course is organized around 5-6 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 and Communication in Organizations (3 weeks)
Topic 2: Decision Making in Organizations (2 weeks)
Topic 3: Boundaries of the Firm (2-3 weeks)
Topic 4: Organizational Structures and Processes (1-2 weeks)
Topic 5: Competition and Organization (1 week)
Topic 6: Careers in Organizations (1 week)
Topic 1: Incentives and Communication in Organizations
(3 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: Decision Making in Organizations  
(2 weeks)

Overview


Topics

**Authority**  


**Delegation**  

**Hierarchies**  
Topic 3: Boundaries of the Firm
(2-3 weeks)

Overview


Papers

Transaction Cost Economics

Property Rights

Incentive Systems

Influence Activities

Empirical Evidence


Foundations


Topic 4: Organizational Structures and Processes  
(1-2 weeks)

**Overview**


**Structures**


**Hierarchies**


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: Careers in Organizations
(1 week)

Overview


Papers

Internal Labor Markets


Personnel Policies

Potential Papers for In-Class Presentations
More will be added

**Incentives and Communication in Organizations**


**Decision Making in Organizations**


**Boundaries of the Firm**


**Competition and Organization**


**Careers in Organizations**


