

Economics 174 – Organization of The Firm Fall 2002

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Overview

This class investigates firms as economic and social institutions. It examines why such institutions exist in a market economy, and provides explanations for their features. My goal is to provide you with tools from analytic economics as well as organizational behavior that you can apply to real-world situations – either those you read about in the newspaper or those you experience yourself after you graduate.

To that effect, intermediate microeconomics is a prerequisite. You must be sufficiently comfortable with calculus so that you can differentiate fairly simple functions.

Readings

There are a few books that will provide you with readings related to the material I'll be covering. If you take good notes, the best reading will be your notes. The following should be available for you in the university bookstore, as well as put on reserve at the College Library:

* Besanko, D., Dranove, D., and Stanley, M., *Economics of Strategy*, John Wiley & Sons, Second Edition (July, 1999).

Baron, J. and Kreps, D., *Strategic Human Resources: Frameworks for General Managers*, John Wiley and Sons, First Edition (March, 1999).

Masten, S., *Case Studies in Contracting and Organization*, Oxford University Press (January 1996).

Milgrom, P. and Roberts, J., *Economics, Organization and Management*, Prentice Hall, First Edition (February, 1992).

Putterman and Kroszner (Eds), *The Economic Nature of the Firm: A Reader*, Cambridge University Press, Second Edition (February 1996).

Requirements

1. (25%) Several problem sets. Problem sets will be collected in the beginning of the class in which they are due. Problem sets are there to help you learn. You are welcome to think about them with friends, but you are not welcome to hand them in jointly, nor hand them in after their due date.
2. (25%) A mid-term exam during the tenth session of class on Tuesday, 10.29.
3. (50%) (One and only one) final exam on Tuesday, 12.10, 11:30AM-2:30PM.

Limits of Complaints Policy

- Please do not ask me for my class notes. They will not be handed out. If you miss a class, be sure to find a class-mate who took good notes.
- I will accept applications for regrades under the following three conditions:
 1. Applications are made to me only;
 2. Applications are made any time between one and ten days after I provide the grades;
 3. If you apply for a regrade, I regrade the entire exam, not only the individual problems you believe were misgraded. Your grade may go up or down.

Office Hours: Tuesdays, 4:00-6:00 PM, 8347 Bunche Hall or by appointment. If you'd like to chat with me in a less formal setting, I will be heading for a conceptual coffee before my office hours on Tuesday. Wait for me by my office at around 3:20PM.

The best way to get in touch with me, for any reason, is by e-mail: lyariv@econ.ucla.edu. You can also try calling: 825-7116.

Course Outline

The following is a tentative road-map. I will make sure to announce well in advance any changes that come about. In what follows, Besanko, Dranove, and Shanley's book is nicknamed BDS.

0. Introduction: Who cares about the organization of the firm?

BDS, Introduction.

Camerer, C. and Lovo, D. (1999), "Overconfidence and excess entry: An experimental approach," *American Economic Review*, Volume 89, pages 306-318.

1. Primer for Economic Concepts

BDS, Primer.

2. Firm Boundaries

- Historical Background

BDS, Chapter 1.

Masten, Chapter 2.

- The Horizontal Boundaries of the Firm

BDS, Chapter 2.

- The Vertical Boundaries of the Firm

BDS, Chapter 3.

- The Transactions Costs of Market Exchange

BDS, Chapter 4.

Putterman and Kroszner, Chapter 7.

- Organizing Vertical Boundaries: Theory and Evidence

BDS, Chapter 6.

Masten, Chapter 8.

3. Internal Organization of the Firm

- Incentive and Agency
BDS, Chapter 15.
- Strategy and Structure
BDS, Chapter 16.
- Power and Culture
BDS, Chapter 17.
- The General Manager
BDS, Chapter 18.

4. Employment as a Social Relation

(most topics from Baron and Kreps, Chapter 5)

- The Psychology of Attribution and Motivation
- Social Comparison
- Categorization Processes in Organization
- Distributive and Procedural Justice
- Reciprocity and Gift Exchange
Putterman and Kroszner, Chapter 19.

5. Conclusions: So what did we learn?