

---

# Economics of Organizations (B)

## Introduction

In this course, we will review the fundamental models of organizational economics and we will provide some training on the use of formal models for management research.

## Objectives

1. To understand the basic models in economics of organizations
2. To study the contributions of economics to our understanding of organizations
3. To develop some limited modeling capabilities

## Learning Outcomes

- i. Know the basic models in economics of organizations
- ii. Understand the basic assumptions involved in study of organizations from an economic perspective
- iii. Be aware of the anthropological foundations associated to economic models of organizations.
- iv. Understand the contributions and limitations of economic models to study organizations
- v. Learn to use TCE, Agency Theory, and Property Rights Theory.
- vi. Understand the relevance and impact of information and incentives in organizations.
- vii. Apply economic models to different organizational problems
- viii. Develop basic modelling skills

## Competencies

CG3: Conduct a critical analysis, evaluation and synthesis of new and complex ideas with the objective to produce general principles applicable to business situations.

CE1: Understand the concepts of social and human sciences relevant and necessary to carry out research projects of international level in the area of business management.

CE4: Distinguishing of the different fields of management sciences and acknowledgement of the research methodologies related to them.

CE9: Analyze and relate the main contributions of the economy to the study of organizations

## Content

- (1) Transaction Cost Economics (TCE)
- (2) Coordination and motivation in organization: The role of knowledge and incentives
- (3) The problem of asymmetric information: Bargaining, adverse selection and signaling
- (4) Agency problems
- (5) Property Rights Theory

## Methodology

The format of the class will be a seminar: We will use a combination of lecturing, class discussion and exercises. Any time you see a chapter assigned in the basic textbook (Milgrom and Roberts), you are supposed to study the chapter and think about the "Food for thought" section. Do only the numerical exercises assigned.

## Evaluation

The final grade will be based on the class participation, exercises, and on the evaluation of a short report (around 10 pages) dealing in depth on one of the topics covered in class. The report should have an academic style and be based on the assigned readings plus 4 or 5 additional articles to complement the material discussed in class.

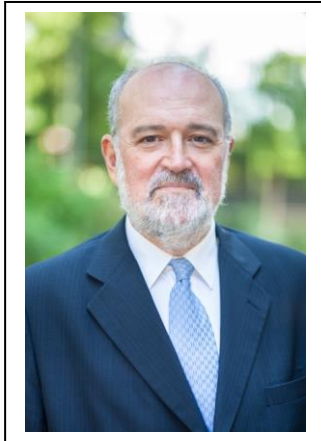
## Course Outline & Bibliography

SESSION	DESCRIPTION	CASE/ACTIVITY
1	INTRODUCTION	<ul style="list-style-type: none"> <li>• Milgrom, P. and J. Roberts, <u>Economics, Organization, and Management</u>, Prentice Hall, 1992. Chapters 1 and 2.</li> <li>• Organization Design: The Intellectual Heritage - DGN 478 E</li> </ul> <p>Do:</p> <ul style="list-style-type: none"> <li>• Exercises 1, 2, and 3, chapter 2.</li> </ul>
2	TRANSACTION COST ECONOMICS	<p>Readings:</p> <ul style="list-style-type: none"> <li>• Williamson, "Economics and Organization: A Primer", <u>California Management Review</u>, Vol 38, n.2, winter 1996. CMR053</li> <li>• Coase, "The nature of the firm", <u>Economica</u>, 1937</li> <li>• Baumol, "Williamson's The economic institutions of capitalism", <u>Rand Journal</u>, vol 17 no. 2, Summer 1986</li> <li>• John Stuckey and David White, "When and</li> </ul>

		<p>When <i>Not</i> to Vertically Integrate", SMR006</p> <ul style="list-style-type: none"> <li>• HBS-9-792-074 Birds Eye and the UK. Frozen food Industry (A)</li> <li>• HBS-9-792-078 Birds Eye and the UK. Frozen food Industry (B) (In class)</li> </ul>
3	IDEM	IDEM
4	USING PRICES FOR COORDINATION AND MOTIVATION. PRICES VS QUANTITIES	<p>Reading:</p> <ul style="list-style-type: none"> <li>• Milgrom and Roberts, Chapters 3 and 4</li> </ul> <p>Do:</p> <ul style="list-style-type: none"> <li>• Exercise 2, chapter 3.</li> </ul>
5	IDEM	
6	IDEM	
7	COORDINATION AND THE PROBLEM OF KNOWLEDGE	<p>Readings:</p> <ul style="list-style-type: none"> <li>• F.A. Hayek, "The Use of Knowledge in Society", <u>American Economic Review</u>, 1945.</li> <li>• A.S. Grove, "Breaking the Chains of Command", <u>Newsweek</u>, Oct. 3, 1983.</li> <li>• DGN 479-E "Organizational Design: Conceptual Elements". Sections 1 and 2.</li> </ul>
8	COORDINATION OF DECISIONS AND THE LOGIC OF MARKETS	<p>Readings:</p> <ul style="list-style-type: none"> <li>• DGN 479-E "Organizational Design: Conceptual Elements". Sections 1 and 2.</li> <li>• D. Stark, "Can designer capitalism work in Central and Eastern Europe", <u>Transition</u>, May 1992.</li> <li>• D. Brooks, "In the URSS possession is better than law", <u>WSJ</u>, May 16, 1991.</li> </ul>
10	THE PROBLEM OF ASYMETRIC INFORMATION	<p>Readings:</p> <ul style="list-style-type: none"> <li>• Milgrom and Roberts, Chapter 5</li> <li>• Akerlof, "The Market for Lemons", <u>Quarterly Journal of Economics</u>, 89 pp. 488/500, 1970</li> <li>• Spence, "Job Market Signaling " <u>Quarterly Journal of Economics</u>, August 1973</li> </ul> <p>Do:</p> <ul style="list-style-type: none"> <li>• Exercises 1, 2 and 6, chapter 5.</li> </ul>
11	IDEM	
12	IDEM	

13	AGENCY PROBLEMS I	<p><b>Readings:</b></p> <ul style="list-style-type: none"> <li>• Milgrom and Roberts, Chapters 6 and 7.</li> </ul> <p><b>Do:</b></p> <ul style="list-style-type: none"> <li>• 9-192-012 Agency problems and corporate jets.</li> <li>• Exercises 1, 2, 4 and 5, chapter 6.</li> <li>• Exercise 3, chapter 7.</li> </ul>
14	IDEM	
15	IDEM	
16	AGENCY PROBLEMS II	<p><b>Readings:</b></p> <ul style="list-style-type: none"> <li>• Milgrom and Roberts, Chapters 6 and 7.</li> <li>• Joan E. Ricart, "Una Introducción a los Modelos de la Agencia", <i>Revista Española de Economía</i>, 1987 – DI-113 (optional)</li> </ul>
17	IDEM	
18	IDEM	
19	RENTS AND EFFICIENCY	<p><b>Reading:</b></p> <ul style="list-style-type: none"> <li>• Milgrom and Roberts, Chapter 8.</li> </ul> <p><b>Do:</b></p> <ul style="list-style-type: none"> <li>• Exercises 1 and 7, chapter 8.</li> </ul>
20	BOUNDARIES AND STRUCTURE	<p><b>Reading:</b></p> <ul style="list-style-type: none"> <li>• Milgrom and Roberts, Chapters 16 and 17.</li> </ul>
21	OWNERSHIP AND PROPERTY RIGHTS	<p><b>Reading:</b></p> <ul style="list-style-type: none"> <li>• Milgrom and Roberts, Chapter 9.</li> </ul>

## Professor's Biography



Prof. Joan Enric Ricart  
Professor Strategic Management

Ph.D. in Managerial Economics, Northwestern University  
Ph.D. in Industrial Engineering, Universitat Politècnica de Catalunya  
Ph.D. in Economics and Business Administration, Universitat Autònoma de Barcelona

Joan E. Ricart is professor of economics and strategic management and head of IESE's Strategic Management Department. Prof. Ricart holds IESE's Carl Schroeder Chair of Strategic Management. He was Associate Dean for Research and the Doctoral Program, IESE Business School, 2001-2006 and Director of the Doctoral Program from 1995 to 2006.

He served as president of the Strategic Management Society, an international organization comprised of academics, business practitioners and consultants dedicated to expanding knowledge and exchanging ideas on the strategic management process. He is also founding president of the European Academy of Management (EURAM) and vice-president of the Iberoamerican Academy of Management. In addition, he is Fellow of SMS, Euram and IAM. As a visiting professor, Prof. Ricart has taught and conducted research in diverse settings including at IPADE (Mexico), INALDE (Colombia), IAE (Argentina), Universidad de Piura (Peru), IDE (Ecuador), UNISA (South Africa) and Università di Catania. During the academic year 1992-93 he was research fellow at Harvard Business School. He has also supervised a number of doctoral theses and research projects.

Prof. Ricart has published numerous books, with publishing houses such as Edward Elgar, J. Wiley and Sons, McGraw-Hill, NCC-Blackwell and Estudios y Ediciones IESE. He has also authored a number of articles in international and national journals including *Econometrica*, *European Economic Review*, *Interfaces*, *Journal of Finance*, *Journal of Information Systems*, *Knowledge Process Management*, *Quarterly Journal of Economics*, *Strategic Management Journal*, *Harvard Business Review*, *Long Range Planning*, *European Management Review*, *Management Research*, *Journal of International Business Studies*, *International Management Review*, *British Journal of Management*, *Harvard Deusto Business Review*, *Papeles de Economía*, and *Revista Española de Economía*. In addition, he has produced a wide range of teaching material (cases and technical and research notes).

Prof. Ricart has been a member and director of the scientific committee of the European Institute for Advanced Studies in Management (EIASM) and also serves on the Harvard Business School-IESE Committee. He is also a member of the R&D Steering Committee of the EFMD.