European University Institute

Department of Economics

Organizational Economics: Building Blocks and Applications.

Professor: Wouter Dessein (Columbia University)

May 2, 2016 – June 1, 2016

Time and Place: Six meetings of 90 min, one meeting of 60 minutes (May 12). May 2 (9:15am), May 3 (1:30pm), May 10 (1:30pm), May 12 (1:30pm), May 15 (1:30pm), May 17 (1:30pm) and June 1 (11am).

Course Description: The vast majority of economic transactions occur inside firms, not between firms. The course first reviews some of the basic building blocks and modeling approaches commonly used in the organizational economics literature. The second part of the course zooms in on a more recent strand in this literature which aims at

(1) Understanding what drives firm behavior (or `strategy') and firm performance, beyond a firm's external environment.

(2) Understanding persistent performance differences between seemingly similar firms. Why are some firms more productive (higher-performing) than others? What prevents lower-performing firms from copying the organization of higher-performing firms? What is the role of managers and managerial practices for firm productivity?

While we will discuss empirical evidence, stylized facts and case studies, the focus of this course is on theoretical models of organizations which may shed light real world phenomena.

Pre-requisites: First-year Micro

Requirement: In-class presentation of an assigned paper (May 17).

COURSE OUTLINE

- Class 1 (May 2) Introduction and Formal/Informal Incentives in Organizations.

    a. Garicano, Luis, and Luis Rayo. "Why organizations fail: models and cases." *Journal of Economic Literature* 54.1 (2016): 137-192.
    b. Michael Powell (2016): Lecture notes for Organizational Economics PhD class
    Chapter 1: Formal and Informal Incentives.
    c. Bloom, Nicholas, and John Van Reenen. "Why do management practices differ across firms and countries?." *The Journal of Economic Perspectives* 24.1 (2010): 203-224.

- Class 2 (May 3) Decision-making in organizations

    a. Aghion, Philippe, and Jean Tirole. "Formal and real authority in organizations." *Journal of political economy* 105.1 (1997): 1-29.*
    b. Dessein, Wouter (2002). Authority and communication in organizations. *The Review of Economic Studies*, *69*(4), 811-838.*
    c. Alonso, Ricardo, Wouter Dessein, and Niko Matouschek. "When does coordination require centralization?." *The American economic review* 98.1 (2008): 145-179.
    d. Gibbons, Robert, Niko Matouschek, and John Roberts. "Decisions in organizations." *The handbook of organizational economics* (2013): 373-431.

- Class 3 (May 10) Decision-making in organizations (Continued)

- Class 4 (May 12) Team Theory (I)

    a. Lecture notes provided in class
    b. Dessein, Wouter, and Tano Santos (2006). "Adaptive organizations." *Journal of Political Economy* 114.5: 956-995.*

- Class 5 (May 15) Team Theory (II): Application to Firm Strategy

    a. Dessein, Wouter, Andrea Galeotti, and Tano Santos. "Rational inattention and organizational focus." *The American Economic Review* 106.6 (2016): 1522-1536.
    b. Dessein, Wouter and Tano Santos (2016). ``Managerial Style and Attention.'' Working paper.

- Class 6 (May 17) Student Presentations
    a. Bonatti, Alessandro and Heikki Rantakari. "The Politics of Compromise." *American Economic Review* (2016).
    b. Halac, Marina, and Andrea Prat (2016). "Managerial attention and worker performance." *The American Economic Review*.
    c. Van den Steen, Eric (2010): ``Interpersonal Authority in a Theory of the Firm'' *The American Economic Review*, or:
    Van den Steen, Eric (2016). `A formal theory of Strategy' *Management Science*.

- Class 7 (June 1) Firm dynamics and (persistent) performance differences between firms.

    a. Chassang, Sylvain (2010) "Building routines: Learning, cooperation, and the dynamics of incomplete relational contracts*." The American Economic Review*.
    b. Dessein, Wouter and Andrea Prat (2017): 'Organizational Capital, Managerial Heterogeneity, and Firm Dynamics.' Mimeo