Economics 370Y: Economics of Organizations

University of Toronto
2011-2012

Instructor: Prof. Arthur J. Hosios
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The purpose of this course is to introduce students to the economic analysis of organizations. We develop an understanding of when markets can solve the problems of coordinating activities and motivating individuals; and, when markets are less successful, how business organizations and special contractual relationships emerge as alternative institutions for allocating resources.

Prerequisites: ECO 200/204/206; ECO 220/227 (or STA equivalent)

Lecture Topics and Reading Assignments

The readings listed below are available through Blackboard. Students are responsible for the material described in square brackets following each reading (some changes may be made during the course). Questions based on each reading are available (using Internet Explorer) on the course Blackboard web site; a subset of these questions will reappear on term tests and the final examination. Only try the assigned questions.

Assigned readings and problems can be found in Blackboard’s Assignment File.

Answers to problem sets are NOT publicly available; the instructor will, however, review answers prepared by students.

Chapters from the following books will be used (you are not expected to purchase these books):


0. Background


1. Introduction and Definitions

MR (2) "Economic Organization and Efficiency" [19-25, 35-38, 53]
BDS (3) "The Vertical Boundaries of the Firm" [105-118, 122-124, 127]

2. Transaction Cost Economics

BDS (4) "The Transactions Costs of Market Exchange" [141-166]

3. TCE: Applications


4. Property Rights Theory


5. Reputation and Relational Contracts

6. Motivating Individuals

MR (7) "Risk Sharing and Incentive Contracts" [206-227]

7. Principal-Agent Applications


8. Relative Compensation


9. Job Design and Performance Measures

MR (7) "Risk Sharing and Incentive Contracts" [228-231]
10. Team Production


11. Firm Boundaries, Again

MR (7) "Risk Sharing and Incentive Contracts" [231-232]

Rules of the Game:

Assessment is based on 3 in-class tests and a final examination. The tests and exam are each of 2 hours duration, are scheduled approximately every 6 weeks throughout the course, and cover the material assigned since the previous test.

Test #1 October 12
Test #2 November 30
Test #3 February 15

The 3 in-class term tests count for 75% of the final grade (at 25% per test). An examination worth 25% of the final grade will be held during the spring examination period and will cover the material assigned after Test #3.

Missed Test: Students who miss a term test will be assigned a mark of zero for that test unless, within 48 hours of the test date, they submit to the instructor a written request for special consideration explaining the reason for missing the test. Appropriate documentation can be provided later; this documentation will be either a medical certificate indicating that the student was too ill to attend class or a college registrar's note.

Students with satisfactory explanations for having missed a test will arrange with the instructor to write a make-up test before the next class.