

Organizational Economics

Module 3, 2024-2025

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NES

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Course information

Course Website: <https://my.nes.ru>

Instructor's Office Hours: TBA

Class Time: TBA

Room Number: TBA

TAs: TBA

Course description

This course is designed to familiarize you with a broad range of topics in Organizational Economics, providing you with a deeper understanding of the role that internal incentives and organizational structures play in economic activities. We will explore both foundational theoretical models and practical empirical applications. Topics include the rationale behind the existence of different types of firms, the formation of hierarchical structures, optimal hiring practices, and the design of incentive systems in the presence of asymmetric information and conflicting interests. The models we study will be applicable to fields such as strategic consulting, management, and antitrust regulation.

Course requirements, grading, and attendance policies

Successful completion of Microeconomics 4 is a prerequisite for this course.

The grade will be a combination of homeworks (40%) and the final exam (60%). The final exam will be closed book, will last 2 hours and will include mathematical and essay questions.

Course contents

1. Employment in organizations: Hiring, Job assignments, Skill Development

- Spence, Michael. 1978. "Job Market Signaling." In *Uncertainty in Economics* (pp. 281-306). Academic Press.

- Gibbons, Robert and Michael Waldman. 1999. "Careers in Organizations: Theory and Evidence." Chapter 36 in Volume 3B of O. Ashenfelter and D. Card (eds.), *Handbook of Labor Economics*.
- Waldman, Michael. 2010. "Theory and Evidence on Internal Labor Markets." in R. Gibbons and J. Roberts (eds.), *Handbook of Organizational Economics*.
- Meyer, Margaret. 1994. "The Dynamics of Learning with Team Production: Implications for Task Assignment." *Quarterly Journal of Economics* 109: 1157-84
- Owan, Hideo. 2004. "Promotion, Turnover, Earnings, and Firm-Sponsored Training." *Journal of Labor Economics* 22: 955-78.
- Hensvik, Lena, & Skans, Oskar Nordström. 2016. "Social Networks, Employee Selection, and Labor Market Outcomes." *Journal of Labor Economics*, 34(4), 825-867.

2. Explicit incentives: Optimal compensation contracts. Multi-tasking. Performance measures.

- Holmström, Bengt, and Paul Milgrom. 1991. "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design," *Journal of Law, Economics, and Organization*, 7: 24-52.
- Schöttner, Anja. 2008. "Relational Contracts, Multitasking, and Job Design." *Journal of Law, Economics, and Organization*, 24(1): 138-162.
- Jewitt, Ian, Ohad Kadan, and Jeroen Swinkels. 2008. Moral Hazard with Bounded Payments. *Journal of Economic Theory*, 143(1): 59-82.
- Baker, George. 2002. Distortion and Risk in Optimal Incentive Contracts. *Journal of Human Resources*, 37(4): 728-751.
- Baker, George, Robert Gibbons, and Kevin J. Murphy. 1994. "Subjective Performance Measures in Optimal Incentive Contracts." *Quarterly Journal of Economics*, 109:1125-56
- Garicano, Luis, and Luis Rayo. 2016. "Why Organizations Fail: Models and Cases." *Journal of Economic Literature*, 54(1): 137-192.

3. Implicit incentives: Career Concerns. Incentives in teams.

- Demougin, Dominique, and Aloysius Siow. 1994. "Careers in Ongoing Hierarchies." *American Economic Review* 84:1261-77.
- Gibbons, Robert, and Michael Waldman. 1999. "A Theory of Wage and Promotion Dynamics Inside a Firm." *Quarterly Journal of Economics* 114: 1321-58.
- Gibbons, Robert and Michael Waldman. 2006. "Enriching a Theory of Wage and Promotion Dynamics inside Firms." *Journal of Labor Economics* 24: 59-107.

- Holmström, Bengt. 1999. "Managerial Incentive Problems: A Dynamic Perspective." *Review of Economic studies*, 66(1), 169-182.
- Mohnen, Alwine, Kathrin Pokorny, and Dirk Sliwka. 2008. "Transparency, Inequity Aversion, and the Dynamics of Peer Pressure in Teams: Theory and Evidence." *Journal of Labor Economics* 26: 693-720.
- Delfgaauw, Josse, Dur, Robert, Onemu, Oke, and Sol, Joeri. 2022. "Team Incentives, Social Cohesion, and Performance: A Natural Field Experiment." *Management Science*, 68(1), 230-256.

4. Structures and Processes in Organizations: Allocation of authority. Delegation. Communication and feedback.

- Bloom, Nicholas, Raffaella Sadun, and John Van Reenen. 2010. "Management, Decentralization, and Productivity." in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*.
- Garicano, Luis and Timothy Van Zandt. 2010. "Hierarchies and the Division of Labor." in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*.
- Mookherjee, Dilip. 2013. "Incentives in Hierarchies," in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*.
- Gibbons, Robert, Niko Matouschek, and John Roberts. 2013. "Decisions in Organizations." in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*.
- Marta Troya-Martinez and Liam Wren-Lewis, 2023. "Managing Relational Contracts," *Journal of the European Economic Association*, 21(3), 941-986.

5. Firm Boundaries: Vertical integration. Relational Contracts

- Lafontaine, Francine and Margaret Slade. 2007. "Vertical Integration and Firm Boundaries: The Evidence." *Journal of Economic Literature* 45: 629-85.
- Bresnahan, Timothy and Jonathan Levin. 2010. "Vertical Integration and Market Structure." in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*.
- Kornhauser, Lewis and Bentley MacLeod. 2010. "Contracts Between Legal Persons." in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*.
- Levin, Jonathan. 2003. "Relational Incentive Contracts." *American Economic Review* 93: 835-57.

Course materials

- Gibbons, Robert, and John Roberts. 2013. *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.
- Bolton, Patrick and Mathias Dewatripont. 2005. *Contract Theory*. Cambridge, MA: MIT Press.
- Research papers from the syllabus.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated and will be punished. This includes self-plagiarism: students cannot submit projects that are identical to or with minor modifications of those submitted for other courses. Major modifications might be allowed but must receive an explicit approval from the professor before submitting. Failure to declare overlap or submitting projects with high similarities to existing works will result in severe punishment. Students must adhere to these regulations as part of the NES Honor code. Course projects are subject to random plagiarism checks.