

Matthew Weinberg
Assistant Professor of Economics
University of Georgia
Spring 2008

**Economics 4650
Organizations and Management**

Office: 512 Brooks Hall

Meeting Times: Tuesdays and Thursdays 12:30 – 1:45.

Class Location: 212 Sanford

Office Hours: Fridays 3:00 – 5:30.

Prerequisites: Intermediate Micro.

Description: This course analyzes theories of the firm. We will review the neo-classical theory of the firm and discuss its strengths and weaknesses in explaining features of firms, and then explore other theories. The focus will be on why firms exist in market economies and what determines their features. My goal is to provide you with analytical tools that you will use to investigate real-world situations.

Organization: The course grade depends upon the final examination (35%), the midterm examination (20%), two short essays (25%) and performance in class, including problem sets (20%). These are the ONLY items I will consider in determining grades.

Tentatively, the midterm will be held in class on February 26.

The final exam date is Tuesday, May 6 at 12 pm.

There will be no makeup date for the midterm or the final. If you know you will not be able to take either of them already, then you should not take this course. Two exceptions to this rule are:

(1) You have another exam scheduled for the same time or three exams scheduled on the same day, and that Economics 2106 is your lowest numbered course. The procedure for rescheduling final exam conflicts has been revised. You are no longer required to go to the Office of Curriculum Systems to fill out the necessary paperwork. Instead, you can complete the necessary forms on-line from:

www.bulletin.uga.edu

www.curriculumsystems.uga.edu

In this case please let me know one week prior to the last day of classes.

(2) if the Office of the Vice-President for Student Affairs (110 Old College) verifies that you have a family emergency or personal illness. If this occurs please let me know *before* the exam or as soon as possible after the exam.

Homework: There will be four problem sets you should solve. They will be posted on the class web page on Blackboard.

Communication: The best way to contact me is via e.mail. My address is mweinber@terry.uga.edu, and I check my e.mail several times a day. Occasionally I will contact you via e.mail, so please check your e.mail on a regular basis as well. The course will use Blackboard. You can access it at:

terry.blackboard.com

(no “www”). You should check blackboard for problem sets, solutions, and announcements. If you have not used Blackboard before, you should have received an e.mail with a password by now.

Required Readings: The main text for this course is: Milgrom and Roberts, "Economics, Organization and Mangement," Prentice-Hall. It is available at the University bookstore. You will have to download some papers from JSTOR, an electric journal archive at www.jstor.org. Other materials will be distributed in class and posted on the course webpage. These materials are listed on the course timeline.

Essays: The two short essays have simple instructions. Discover an ostensibly puzzling economic phenomenon observable in every-day life and explain it using the tools learned in this class. This will allow you to practice thinking like an economist.

Academic Honesty: UGA's [Academic Honesty Policy](#) will be strictly enforced in this course. I strongly urge you to become particularly familiar with Section 5 that discusses prohibited conduct. The basic procedure is that the instructor who has evidence of a student's violation of academic honesty submits the name of the student to the Office of Academic Honesty. If the instructor wishes to pursue a charge of academic dishonesty, he/she must schedule a meeting among him/her, the student(s), and a facilitator. The purpose of the hearing is to discuss the charge and determine if there is agreement among the parties as to the guilt/innocence of the student and, if justified, the penalty for academic dishonesty. If this discussion does not result in agreement, the case is transferred to a hearing that is presided over by a panel of one faculty member and two students. Two appointed representatives, one for the student and one for the university, conduct the hearing. The faculty becomes a witness for the university.

Regrading:

From the date that I return the midterm or problem sets and go over them in class you will have 10 days to request a regrade. To request a regrade, please write a short note that:

- 1) identifies the questions(s) you would like regraded;

2) lists for each question a brief reason why you believe it was graded incorrectly based on the correct answer I provided in class.

I will be glad to review your final exam with you. If you would like to do this, please set up a meeting with me. You will be permitted to read through your exam in my office, but will not be permitted to take it with you. If after reviewing the final exam you request a regrade, please follow the same procedure as for the midterms.

Once I submit the course grades, I will change them for no reason other than a regraded final exam score or a mathematical error in the total grade calculation. I will not change a course grade for any other reason.

Outline of Topics and Readings:

Section #	Topic and Reading
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Introduction and basic concepts

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| 1 | Introduction; Sloan and GM,
Milgrom and Roberts, 2-42 |
| 2 | Efficiency and Total Value Maximization
Milgrom and Roberts, 19-28 and 35-42 |
| 3 | The Coase Theorem and First Welfare Theorem
Milgrom and Roberts, 57-69 |
| 4 | Coase: "The Nature of the Firm"
<i>Economica</i> , 1937, pp. 386-405
Paper available on JSTOR. |

Agency Theory and the Firm

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| 5 | Alchian and Demsetz, "Production, Information Costs, and Economic Organization," <i>American Economic Review</i> , 1972
Paper available on JSTOR. |
| 6 | Bounded Rationality and Incomplete Contracting
Milgrom and Roberts, Chapter 5 |
| 7 | Moral Hazard
Milgrom and Roberts, Chapter 6 |
| 8 | Agency and Ownership Structure
Handout |

- 9 Incentive Contracts: Theory and Practice
Milgrom and Roberts, 206-214
- 10 Incentive Contracts: Theory and Practice
Milgrom and Roberts, 214-232
- 11 Intertemporal Incentives: The Ratchet Effect and Commitment
Milgrom and Roberts, 232-239
- 12 Efficiency Wages
Milgrom and Roberts, 248-269
- Rents, Efficiency, and Organizational Form***
- 13 Rents, Quasi-rents, Appropriability, and Hold-ups
Milgrom and Roberts, 269-280
- 14 Vertical Integration and Asset Specificity
- 15 Residual Control Rights, Bargaining Power, and Efficiency
Handout and Milgrom and Roberts, 288-306
- 16 Franchising: Overview and Contractual Features
- 17 Franchising (continued): Overview and Contractual Features