

# MANA717013 / MANA130329h/ MANA130400

## The Theory of the Firm

Fall 2023

**Instructor:** Prof. Zhuoran Lu (陆卓然)

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**Office Hour:** Wednesday, from 9:30 to 11:30, or by appointment

**Lecture:** Monday, from 13:30 to 16:10. Classroom: Shidai Building 503

**Teaching Assistant:** Limei Chen (陈丽梅); Email: 20110690001@fudan.edu.cn

**Course Prerequisite:** Advanced Microeconomics, Game Theory

**Course Objectives:** The purpose of this course is to provide first-year MPhil-PhD students with a thorough coverage of the main issues studied in the theory of modern business organizations, including the nature, boundary, behavior, structure, incentive scheme, and performance of the firm. This involves developing a familiarity with the key theoretical frameworks and insights as well as important empirical findings in the literature. By the end of this course, students should be able to demonstrate an analytical understanding of the functioning of modern business organizations in the real world and to develop a rigorous research agenda on relevant issues in this field.

**Textbooks:** The course is self-contained and I will publish my lecture notes on the class website. There is thus no required textbook. However, the class draws from material in the following highly recommended books.

1. Gibbons, R., and J. Roberts. 2013. R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton University Press.
2. Bolton, P. and M. Dewatripont. 2005. *Contract Theory*. M.I.T. Press.
3. MacLeod, B. 2022. *Advanced Microeconomics for Contract, Institutional, and Organizational Economics*. M.I.T. Press.
4. Hart, O. 1995. *Firms, Contracts, and Financial Structure*. Oxford University Press.
5. Milgrom, P. and J. Roberts. 1992. *Economics, Organization and Management*. Pearson.
6. Roberts, J. 2007. *The Modern Firm: Organizational Design for Performance and Growth*. Oxford University Press.
7. Kroszner, R. and L. Putterman. 2009. R. Kroszner and L. Putterman (eds.), *The Economic Nature of the Firm: A Reader*. Cambridge University Press.

**Course Requirements:** Students are expected to attend lectures and read the assigned articles in advance. Because actively talking and thinking economics may be the most important element to deepen economic intuition, students will be highly encouraged to join these discussions.

**Problem Sets:** Problem sets will be assigned according to the teaching progress. Late homework will not be accepted for any reason. Problem sets enable students to become proficient using the concepts and analytical methods presented in the lectures and readings. They provide excellent practice for the exam. Students who do not work these problems should expect to do poorly on the exam. Students may collaborate on problem sets, although each must submit her/his own answers in her/his own words.

**Referee Report:** It is important for you to be able to evaluate the novelty/importance of different topics, which will be critical when you start to choose topics to write your dissertation. Thus, each student is required to write a referee report in this course. The report should be in English with 3-4 pages (1.5 line space), the deadline of which is Friday, June 10<sup>th</sup>. In the report, you should pay attention to the following:

1. **Summary.** You should first summarize the paper. Be specific about the paper's research question, model assumptions/empirical methodology, and main results.
2. **Overall assessment.** Why do you think the paper is excellent? Why is the topic important/interesting? Is the idea creative? What is the most important insight of the paper? What is the main contribution to the literature?
3. **Detailed critiques.** For example, are the model assumptions reasonable? Which assumption is critical? Are the results robust? What are the testable implications? What improvement you would like to suggest concerning the modelling, analysis, possible extensions, etc.

You can find a general guideline for refereeing a paper here:

<http://www.elsevier.com/wps/find/reviewerhome.reviewers/reviewersguidelines>

You should choose a relatively new paper, say after 2000, from the reading list, and let the TA know in advance which paper you choose. You could also choose a paper not in the reading list, but you need to talk to me first as to whether this paper is relevant.

**Final Exam:** A cumulative final exam will be given on Monday, December 18, 2023, from 13:30 to 15:30. The time of the final exam cannot be changed, and alternative exam times will not be offered, so please resolve any conflicts now.

**Grading:** Your final grade will depend on class participation, homework, the referee report and the final exam. Class participation will count 10% of your final grade, the homework will count 20%, the referee report will count 20%, and the final exam will count the remaining 50%.

## Tentative Outline

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| <b>Part I Introduction</b>   |
| <b>Lecture 1</b><br>Course Overview and Review of Classic Theories of the Firm |
| <b>Part II Transaction-Cost Economics and Property-Rights Theory</b>           |
| <b>Lecture 2</b><br>Transaction-Cost Economics                                 |
| <b>Lecture 3</b><br>The Basic Property-Rights Model                            |
| <b>Lecture 4</b><br>Property Rights and Contracts                              |
| <b>Part III Agency Theory</b>  |
| <b>Lecture 5</b><br>Formal Incentive Contracts                                 |
| <b>Lecture 6</b><br>Relational Incentive Contracts                             |
| <b>Lecture 7</b><br>No Incentive Contracts (e.g., “Career Concerns”)           |
| <b>Lecture 8</b><br>Incentive Systems  |
| <b>Lecture 9</b><br>Formal(izable) Theories of the Firm?                       |
| <b>Part IV Organizations as Decision Processes</b>                             |
| <b>Lecture 10</b><br>Team Theory vs. Organization Theory                       |
| <b>Lecture 11</b><br>Formal & Informal Authority                               |
| <b>Lecture 12</b><br>Culture, Language, & Leadership                           |
| <b>Part V Organizational Capabilities and Structures</b>                       |
| <b>Lecture 13</b><br>Persistent Performance Differences                        |
| <b>Lecture 14</b><br>History of Organizational Structures                      |
| <b>Lecture 15</b><br>Five Models of Hierarchy                                  |
| <b>Lecture 16</b><br>Delegation  |