

**THE UNIVERSITY OF HONG KONG
FACULTY OF BUSINESS AND ECONOMICS**

PhD Course Syllabus

Course Code/Title: [STRA6016] **Organizational Economics and Business Strategy I**

Course Description: This course is the first of the two-course sequence of organizational economics for doctoral students. The two courses will prepare research students for further study in organizational economics as well as related areas such as institutional economics, business strategy and human resource management, corporate finance, and innovation and entrepreneurship. In this course, we will cover a wide range of theoretical models and empirical studies based on the classic papers and some recent research. We place emphasis on the understanding of real-world phenomena and the combination between theory and empirics.

Course Objectives: The primary purpose of the course is to help students build up a toolbox for applied research. By the end of the class, students are expected to be able to write down a model to explain empirical phenomena by using or extending the models covered in the course. Students are also expected to be able to apply modern econometrics methods to empirical projects.

Pre-requisite: Knowledge of intermediate-level microeconomics, econometrics, and mathematics (such as elementary calculus and probability).

Assessment: 50% coursework; 50% examination

Remarks: All PhD courses are non-credit-bearing and will be assessed on a pass/fail basis.

Course Learning Outcomes (CLOs) On completion of this course, students should be able to:	Aligned PLOs*				
	1	2	3	4	5
1. Gain familiarity with key issues in organizational economics	X	X			X
2. Build skills in developing applied models and applying econometric methods	X	X	X	X	
3. Identify research topics	X	X	X		X
4. Comment and assess works related to organizations	X		X	X	X

***Programme Learning Outcomes (PLOs) for Research Postgraduate Programme:**

1. Demonstrate critical understanding, at an advanced level, of up-to-date knowledge and research methodology of a particular field
2. Implement effective academic and personal strategies for carrying out research projects independently and ethically
3. Contribute original knowledge in response to issues in their specialist area
4. Communicate research findings at a diverse range of levels and through a variety of media
5. Evaluate one's own research in relation to important and latest issues in the field

COURSE DETAILS *(subject to change at instructor's discretion)*

Year/Semester: 2023-24, First Semester

Time/Venue: 2:30-5:30 pm, Monday, KK1121

Instructor: Jin Li and Yanhui Wu

Email: jli1@hku.hk yanhuiwu@hku.hk

Office: KKL-936 and KKL-931 (by appointment)

I. Teaching and Learning Activities

In-class and Out-of-class Activities <i>(e.g. lectures, class discussion, papers reading, proposal writing)</i>	Expected hour	% of student study effort
1. Lectures	30	30%
2. Class discussion	10	10%
3. Paper reading	30	30%
4. Homework	30	30%
Total	100	100%

II. Assessment

Assessment Components <i>(e.g. assignments, problem sets, examination)</i>	Weight	CLOs to be assessed				
		1	2	3	4	5
1. Presentations	25%	X	X	X	X	X
2. Problem sets	25%	X	X	X	X	X
3. Final exam	50%	X	X	X	X	X
Total	100%					

Students will be assessed based on the following performance standards:

Course Grade	Performance Standard
Pass	
Fail	

There will be four problem sets (two theoretical and two empirical) throughout the semester. In the last two weeks, students are required to give a presentation of the project he/she plans to pursue. At the end of the semester, there will be a written exam. Students' grades will be based on the assignments (presentations and problem sets) and exam performance.

III. Course Content and Tentative Schedule

Module 1: Incentives (Weeks 1-2)

Static moral-hazard problems (theory)

Incentives and performance (empirics)

Module 2: Structure (Weeks 3-4)

Ownership (theory and empirics)

Hierarchy (theory and empirics)

Module 3: Manager (Week 5)

Managers and economic efficiency (theory)

Managerial practices (empirics)

Module 4: Measurement (Weeks 6-7)

Contract and information

Teams

Module 5: Enforcement (Weeks 8-9)

Relational Contracts

Incomplete Contracts

Power and authority

Module 6: Dynamics (Weeks 9-10)

Career Concern and Identity

Organizational Dynamics

Power Dynamics

Module 7: Student presentations (Weeks 11-12)

IV. Required/Recommended Readings

This course will be based primarily on original academic articles. However, the following books and lecture notes are useful references. Students should read them selectively according to the technical level of the material.

Background reading

Arrow, K. (1974). *The Limits of Organization*. Norton & Company

Milgrom and Roberts (1992). *Economics, Organization & Management*. Pearson

Lazear, E. (1995). *Personnel Economics*, MIT Press

Roberts, J. 2004. *The Modern Firm: Organizational Design for Performance and Growth*. Oxford: Oxford University Press.

Textbooks

Salanie, B. (2005). *The Economics of Contracts: A Primer*, 2nd Edition. MIT Press
Bolton and Dewatripont (2005). *Contract Theory*. MIT Press
Gibbons and Roberts (Ed. 2012) *Handbook of Organizational Economics*. Princeton University Press
Angrist and Pischke. (2009) *Mostly Harmless Econometrics: An Empiricists' Companion*. Princeton University Press

Lecture Notes

Stole, Lars. (2001). *Lectures on the Theory of Contracts and Organizations*
Acemoglu and Autor. *Lectures in Labor Economics*
Barron and Powell (2018). *Lectures in Organizational Economics*

Articles

Students are required to read the corresponding articles before each class.

Introduction

Coase, R., (1937). "The Nature of the Firm," *Economica*, 4, 386-405.

Jensen, Michael, and William Meckling. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure." *Journal of Financial Economics* 3: 305–360.

Gibbons, R. (2005). "Four Formal(izable) Theories of the Firm?" *Journal of Economic Behavior & Organization*, 58 200-45.

Module 1: Incentives

Holmstrom, Bengt (1979). "Moral Hazard and Observability," *Bell Journal of Economics*, 13(2), 324-340.

Holmstrom, Bengt and Paul Milgrom (1991). "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design," *Journal of Law, Economics, and Organization*, 7: Special Issue, 24-52.

Prendergast, C. "The provision of incentives in firms" *Journal of Economic Literature* March 1999

Jensen, M.; Murphy, K.; "Performance Pay and Top-Management Incentives" *Journal of Political Economy* v98, n2 (April 1990): 225-64.

Aggarwal, R. and Samwick, A. "The Other Side of the Trade-Off: The Impact of Risk on Executive Compensation" *Journal of Political Economy*, 107, 1999, 65-105.

Hall, Brian and Liebman, Jeffrey "Are CEOs Really Paid Like Bureaucrats?" *Quarterly Journal of Economics*, 113, 1998, 653-691.

Bertrand, Marianne, and Sendhil Mullainathan. 2002. "Enjoying the Quiet Life? Corporate Governance and Managerial Preferences." *Journal of Political Economy* 111: 1043-75.

Lazear, Edward. 1986. "Salaries and Piece Rates." *Journal of Business* 59:405-431.

Lazear, E. "Performance Pay and Productivity," *American Economic Review* 90:5 (December 2000): 1346-1361.

Oyer, P. "Fiscal Year Ends and Nonlinear Incentive Contracts: The Effect on Business Seasonality" *Quarterly Journal of Economics* v113, n1 (February 1998): 149-85

Courty, Pascal, and Gerald Marschke. 2004. "An Empirical Investigation of Gaming Responses to Explicit Performance Incentives." *Journal of Labor Economics* 22: 23-56.

Bandiera, O. Barankay, I, and Rasul, I. 2006 "Incentives for Managers and Inequality among Workers: Evidence from a Firm Level Experiment" *Quarterly Journal of Economics* 122(2)

Bandiera, Oriana, Iwan Barankay, and Imran Rasul. 2005. "Social Preferences and the Response to Incentives: Evidence from Personnel Data." *Quarterly Journal of Economics*, 120(3): 917 – 62.

Kandel, E and E. Lazear (1992) "Peer Pressure and Partnerships", *Journal of Political Economy* 100: 801-13

Mas, Alexandre, and Enrico Moretti. "Peers at work." *The American Economic Review* 99.1 (2009): 112-145.

Wu, Yanhui, and Feng Zhu. 2022. Competition, contracts, and creativity: Evidence from novel writing in a platform market, *Management Science*

Module 2: Structure

Grossman, S. J., and O. D. Hart. 1986. "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration." *Journal of Political Economy* 94: 691–719.

Masten, Scott E. 1984. "The Organization of Production: Evidence from the Aerospace Industry." *Journal of Law and Economics* 27: 403–417.

Joskow, Paul L. 1985. "Vertical Integration and Long-Term Contracts." *Journal of Law, Economics, and Organization* 1: 33–80.

Brickley, James A., and Frederick H. Dark. 1987. "The Choice of Organizational Form: The Case of Franchising." *Journal of Financial Economics* 18: 401–420.

Lafontaine, Francine, and Kathryn Shaw. 1999. "The Dynamics of Franchise Contracting: Evidence from Panel Data." *Journal of Political Economy* 107: 1041–1080.

Baker, George P., and Thomas N. Hubbard. 2003. "Make versus Buy in Trucking: Asset Ownership, Job Design, and Information." *American Economic Review* 93: 551–572.

Forbes, Silke, and Mara Lederman. 2009. "Adaptation and Vertical Integration in the Airline Industry." *American Economic Review* 99: 1831–1849.

Azoulay, Pierre. 2004. "Capturing Knowledge within and across Firm Boundaries: Evidence from Clinical Development." *American Economic Review* 94: 1591–1612.

Aghion, P., and J. Tirole. 1997. "Formal and Real Authority in Organizations." *Journal of Political Economy* 105: 1–29.

Acemoglu, Aghion, Lelarge, Van Reenen, Zilibotti. (2007) Technology, Information, and the Decentralization of the Firm. *Quarterly Journal of Economics*, Vol. 122 (4): 1759-1799.

Guadalupe, Maria, and Julie Wulf. 2010. "The Flattening Firm and Product Market Competition: The Effect of Trade Liberalization on Corporate Hierarchies." *American Economic Journal: Applied Economics* 2(4): 105–127.

Wu, Yanhui (2017) Authority, Incentives, and Performance: Evidence from a Chinese Newspaper, *Review of Economics and Statistics* 99 (1), 16-31.

Sah, Raj and Joseph Stiglitz. 1986. "The Architecture of Economic Systems: Hierarchies and Polyarchies." *American Economic Review* 76:716-27.

Qian, Yingyi, Gerard Roland, and Chenggang Xu. 2006. "Coordination and Experimentation in M-Form and U-Form Organizations." *Journal of Political Economy* 114: 366–402.

Garicano, L. 2000. "Hierarchies and the Organization of Knowledge in Production." *Journal of Political Economy* 108: 874–904.

Lorenzo Caliendo, Ferdinando Monte, and Esteban Rossi-Hansberg, The Anatomy of French Production Hierarchies, *Journal of Political Economy*, 2015, 123:4, 809-852.

Garicano, Luis and Yanhui Wu. (2012). Knowledge, Communication and Organizational Capabilities, *Organization Science* 23(5): 1382-1397.

Wu, Yanhui. (2015) Organizational Structure and Product Choice in Knowledge-intensive Firms, *Management Science*, 61(8): 1830-1848

Module 3: Manager

Stigler, George. 1951. "The Division of Labor is Limited by the Extent of the Market." *Journal of Political Economy* 59: 185–193.

Lucas, Robert. 1978. "On the Size Distribution of Business Firms." *Bell Journal of Economics* 9: 508–523.

Rosen, Sherwin. 1982. Authority, Control, and the Distribution of Earnings, the *Bell Journal of Economics* 13(2): 311-323.

Becker, Gary and Kevin Murphy. The division of labor, coordination costs, and knowledge, *The Quarterly Journal of Economics*, Vol. 107, No. 4 (Nov., 1992), pp. 1137-1160

Kremer, Michael. The O-ring theory of Economic Development, *QJE*, 1993, Vol. 108(3), p. 551-575

Garicano, Luis, and Esteban Rossi-Hansberg. Organization and Inequality in a Knowledge Economy, *Quarterly Journal of Economics*, November 2006.

Wu, Yanhui (2017). Incentive Contracts and the Allocation of Talent, *Economic Journal*, 127, 2744-2783.

Bloom, Nick, and John Van Reenen. 2007. "Measuring and Explaining Management Practices across Firms and Countries." *Quarterly Journal of Economics* 122: 1351–1408.

Bloom, Nick, and John Van Reenen. 2010. "Why Do Management Practices Differ across Firms and Countries?" *Journal of Economic Perspectives* 24(1): 203–224.

Bloom, Nicholas, Raffaella Sadun, and John Van Reenen. "The Organization of Firms across Countries." 2012. *Quarterly Journal of Economics*

Bloom, Nick, Erik Brynjolfsson, Lucia Foster, Ron Jarmin, Megha Patnaik, Itay Saporta-Eksten and John Van Reenen. 2019. What Drives Differences in Management Practices? *American Economic Review*

Bertrand, Marianne, and Antoinette Schoar. 2003. "Managing with Style: The Effect of Managers on Firm Policies." *Quarterly Journal of Economics* 118: 1169–1208.

Kaplan, Steven N., Mark M. Klebanov, and Morten Sorensen. 2012. "Which CEO Characteristics and Abilities Matter?" *Journal of Finance*, 67 (3): 973–1007

Mullins, William, and Antoinette Schoar. 2016. "How Do CEOs See Their Role? Management Philosophy and Styles in Family and Non-Family Firms." *Journal of Financial Economics*. 119 (1): 24–43.

Bandiera, O., A. Prat, S. Hansen, and R. Sadun. 2020. CEO Behavior and Firm Performance, *Journal of Political Economy*.

Garicano, Luis, and Tom Hubbard. 2009. "Specialization, Firms and Markets: The Division of Labor within and between Law Firms." *Journal of Law, Economics, and Organization* 25: 311–338.

Module 4: Measurement

Alchian, A. and Demsetz. "Production, Information Costs, and Economic Organization", *American Economic Review*, 62(5), 777-795.

Holmstrom, B. (1999). "The Firm as a Subeconomy," *Journal of Law Economic & Organization*, 15 (1) 74-102.

MacLeod, Bentley (2003). W. Bentley MacLeod, 2003. "Optimal Contracting with Subjective Evaluation," *American Economic Review*, vol. 93(1), pages 216-240.

Holmstrom, Bengt (1982) "Moral Hazard in Teams" *The Bell Journal of Economics*, Vol. 13, No. 2, pp. 324-340

Itoh, H. "Incentives to Help in Multi-Agent Situations." *Econometrica* 59 (1991): 611–36.

Lazear, Edward P & Rosen, Sherwin, 1981. "[Rank-Order Tournaments as Optimum Labor Contracts](#)," *Journal of Political Economy*, Vol. 89(5), pp. 841-64, October

Prendergast, Canice (2002). "The Tenuous Trade-Off between Risk and Incentives." *Journal of Political Economy*, 2002, 110(5), pp. 1071-102.

Module 5: Enforcement

Levin, Jon. "Relational Incentive Contracts," *American Economic Review*, (2003) 93(3), pp. 835-847

Baker, George, Robert Gibbons, and Kevin J. Murphy. (1994). "Subjective Performance Measures in Optimal Incentive Contracts." *Quarterly Journal of Economics* 109:1125-56.

Baker, George, Robert Gibbons, and Kevin J. Murphy. 2002. "Relational Contracts and the Theory of the Firm." *Quarterly Journal of Economics* 117(1): 39–84.

Grossman, Sanford J., and Oliver D. Hart. 1986. The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy* 94(4): 691-719.

Aghion, P. and Tirole, J. (1997). "Formal and Real Authority in Organizations." *The Journal of Political Economy*, 105 (1), 1-29

Module 6: Dynamics

Holmstrom, Bengt (1999). "Managerial Incentive Problems-A Dynamic Perspective," *Review of Economic Studies*, 66(1), 169-182.

Dewatripont, M.; Jewitt, I.; and Tirole, J. "The Economics of Career Concerns, Part II: Applications to Missions and Government Agencies." *Review of Economic Studies* 66 (1999): 199–217.

Gibbons, R. and K. Murphy (1992). "Optimal Incentive Contracts in the Presence of Career Concerns: Theory and Evidence," *Journal of Political Economy*, 468-505.

Michael Waldman, 1984. "Job Assignments, Signalling, and Efficiency," *RAND Journal of Economics*, The RAND Corporation, vol. 15(2), pages 255-267

Ke, R., Li, J., and P. Powell (2018) "Managing Careers in Organizations" *Journal of Labor Economics*, pp.197-242.

Li, J., Matouschek, N., and P. Powell (2017) "Power Dynamics in Organizations" *AEJ Micro*, pp.217-241.

V. Course Policy

The University Regulations on academic dishonesty will be strictly enforced! Academic dishonesty is behaviour in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

- a. Plagiarism - The representation of someone else's ideas as if they are their own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged. Please check the University Statement on plagiarism on the web: <http://www.hku.hk/plagiarism/>
- b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort.
- c. Cheating on In-Class Exams - The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.
- d. Unauthorized Advance Access to an Exam - The representation of materials prepared at leisure, as a result of unauthorized advance access (however obtained), as if it were prepared under the rigors of the exam setting. This misrepresentation is dishonest in itself even if there are not compounding factors, such as unauthorized uses of books or notes.

You are expected to do your own work whenever you are supposed to. Incident(s) of academic dishonesty will NOT be tolerated. Cheating or plagiarism of any kind would result in an automatic FAIL grade for the course plus strict enforcement of all Faculty and/or University regulations regarding such behaviour.