Description: This course presents special topics in Industrial Organization Theory. It is intended for students interested in applied theory seeking to learn about recent developments in IO.

This year the course provides a selective overview of current work in Organization Economics. Organization Economics is the study of how organizations, broadly defined, are structured and designed to accomplish a variety of tasks. Our focus in the course is on economic theories of incentives in organizations with particular emphasis on Authority in Organizations and Decisions in Organizations.

The fundamental characteristics of authority in organizations is (i) the power to initiate projects and direct subordinates, (ii) the power to direct and enforce workers to perform, (iii) the power to approve and ratify a certain course of action or strategy, and (iv) the power to evaluate and monitor a worker’s performance. The study of organization authority is to explain on what basis authority is allocated between members of the firm or organization, and to what extent authority is predetermined or determined by the actions and performance of the firm’s members.

With respect to decisions in organizations, the essential issue is how are firms or organizations designed to make decisions? What are the steps in coming to a decision, and how is this process affected by the type and variety of decisions to be made? Who is assigned to complete each stage of the process, and is there overlap among subordinates responsible for completing each stage? Are decisions ever delegated to staff or lower level employees, or to individuals outside of the firm? These questions are analyzed through the lens of incentive theory, that is, how the incentives of the decision maker to perform are affected by the decision process.

Together these literatures, while focused on organization design issues, are central applications of IO theory, agency theory, and contract theory. Organization economics has not only been shaped by recent developments in game theory, agency and contract theory, but is fertile ground for interesting applications to corporate finance, political economics, public finance and the study of government and bureaucracy.

Organization
The course is designed as a reading course or seminar. The class material is presented in six class meetings that are listed below with a tentative reading list from which papers are drawn for presentation in class. The text for the course is


GR will be made available at the Duke University bookstore. I recommend you obtain a copy, if your pocket book can afford it. I will make arrangements for you to have assigned readings from the book if you prefer.

Students are assumed to have knowledge of game theory at the level of Fudenberg and Tirole (93), although I will attempt to keep the discussion self contained. Useful background texts listed below are Bolton and Dewatripont (05), Laffont and Tirole (93) and Tirole (00).

An overview of the papers listed for each week will be provided in class. Students will be expected to read these papers prior to class and to be prepared to explain and evaluate the papers’ results

**Evaluation**

Each student will present and analyze one of the assigned readings in class and write a first draft of a research paper related to Organization Economics

**Reference Reading Materials**

Bolton and Dewatripont, *Contract Theory:* MIT Press


Fudenberg and Tirole, *Game Theory:* MIT Press


Assigned Readings: (e-reserves are available at--

**Office Hours:**

By appointment. Call 660-7983 or email tracyl@duke.edu, Office at A412

**Schedule:** Classes are TBA
Week 1: *Overview and Background*

Chapter 1: Complementarities in Organization (GR)

Chapter 2: Economic Theories of Incentives in Organizations (GR)

Week 2: *Overview and Background.*

Chapter 3: Property Rights (GR)

Chapter 4: Transaction Cost Economics (GR)

Week 3: *Authority in Organizations*

Chapter 9: Authority in Organizations (GR)

Week 4: *Authority in Organizations*

Aghion P. and J Tirole (1997) “Formal and Real Authority in Organizations.” *JPE*


Week 5: *Decisions in Organizations*

Chapter 10: Decisions in Organization (GR)

Week 6: *Decisions in Organizations*


Che Y.K. and N. Kartik (2009). “Opinions as Incentives” *JPE*

Che, Y.K. W. Dessein and N. Kartik (2012) Pandering to Persuade.” *AER*


Kamenica, E and M. Gentzkow (2011) Bayesian Persuasion, *AER*


Landier A, D.Straer and D. Thesmar (2009) Optimal Dissent in Organization *RES*

