

Tuesday, 2-3:45

Thursday, 2-3

Economic rationale for organizations. (open-ended project)

↳ Productive organizations (ie. clubs)

◦ Distinction between the firm and the market

◦ Williamson, Markets and Hierarchies.

◦ Organizations are almost always described as being hierarchical

◦ How does competition fit in with hierarchies?

◦ Competition and hierarchies

◦ Firms are outside the price system

◦ Coase: transactions costs as an explanation for existence of firms.

◦ Families as organizations

◦ competition ex ante makes sense (Asian grad student)

◦ competition ex post makes no sense

◦ This ex ante competition and ex post lack of competition (fundamental transformation - Williamson) leads to potential transactions costs. (hold-up problem)

◦ vertical integration as a solution. Form some sort of organization. (eg GM and Fisher Bodies)

◦ Employment contract - asymmetric relationship (boss/worker)

◦ Alchian/Demsetz explain this: the monitor should be the residual claimant.

◦ Based on transactions costs as opportunistic behavior

◦ Rahman's dissertation attempted to confirm this.

◦ Do organizations exist because of transactions costs?

◦ In this class, Ostroy suggests that even in the absence of transactions costs (opportunistic behavior) we would still see organizations.

◦ Mathematically well-defined starting point for explaining organizations. Does not explain hierarchies or employment contracts

Starting point: description of production in Neoclassical Economics is deficient. People do not enter into this relation. Revise the description of production to incorporate people.

$\mathbb{Y} \subset \mathbb{R}^k$ $y \in \mathbb{Y}$ is a description of inputs/outputs

How do we describe a production set with individuals?

We will begin with a game in normal form to incorporate team production as the emphasis.

$I = \{1, \dots, n\}$ index set for types

$T \subseteq I$ a team

$S_i(T)_{i \in T}$ action set for individual of type i if i is in team T . (in general, $S_i(T) \neq S_i(T')$)
finite

$s = (s_i)_{i \in T} \in S(T) \subseteq \prod_{i \in T} S_i(T)$ (in a normal form game, we usually have $S(T) = \prod_{i \in T} S_i(T)$)

$y(T, s) \in \mathbb{R}^k$ incorporates people into the commodities
for fixed T , fixed s ,
an input/output vector
↳ "how you combine inputs into outputs is a function of who is working"

$\mathbb{Y}(T, s) \subset \mathbb{R}^k$

Each individual can be a member of one team.
There are externalities all around here. This is exactly what we want to exploit.

Economic Theory of Teams, Marschak/Radner