Organizational Economics

Academic Year: (2023 / 2024) **Review date: 18-04-2023**

Department assigned to the subject: Business Administration Department

Coordinating teacher: MELERO MARTIN, EDUARDO

Type: Electives ECTS Credits : 6.0

Year : Semester :

REQUIREMENTS (SUBJECTS THAT ARE ASSUMED TO BE KNOWN)

Mathematics for Economists I & II (or similar)
Microeconomics
Statistics I (or similar)

OBJECTIVES

- Acquisition of a working understanding of the economic approach to the study of organizations.
- Ability to apply that approach to the analysis of specific problems arising in firms and other organizations.
- Ability to work in groups to analyze in depth organizational problems faced by actual firms and to present the results of the analysis to an audience.
- Ability to analyze rigorously and discuss in public practical problems of business organization.
- Understand the concept of informational asymmetry and its implications for organization.
- Understand the key concepts of the economic analysis of employee selection and the provision of incentives in firms and be able to apply these concepts to address organizational problems faced by today's firms.
- Understand the concept of vertical integration and its determinants and be able to apply this understanding to the study of firms' decisions.

DESCRIPTION OF CONTENTS: PROGRAMME

1. Internal Organization: Selection and Incentives
1.1. Selection: asymmetric information, adverse selection, signaling, and screening
1.1.1. Asymmetric information and adverse selection in hiring
1.1.2. Screening mechanisms for employee selection
1.1.3. Signaling and employee selection

1.2. Explicit incentives
1.2.1. The Principal-Agent model
1.2.2. Optimal compensation contracts and the trade-off between incentives and insurance
1.2.3. Multi-tasking and optimal compensation
1.2.4. The choice of performance measures

1.3. Implicit incentives and organization
1.3.1. Implicit incentives
1.3.2. Incentives in teams

2. Firm Boundaries
2.1. Incentives and vertical integration
2.2. Contracting costs and the limits of contracts
2.3. Specific investments and the hold-up problem
2.4. The benefits of external suppliers and distributors
2.5. Other advantages of vertical integration

LEARNING ACTIVITIES AND METHODOLOGY

In the large-group sessions (¿magistrales¿), which will be conducted online, the teacher will present the main contents of the subject. During the sessions, students will also answer short online surveys and quizzes. The goal of these quizzes is to motivate the questions raised in class, improve students¿ understanding of the concepts and tools discussed in class, and provide feedback to students.
In the small-group sessions (in person or online), students will solve exercises, review the homework,

participate in the discussion of case studies and news articles, present and debate case studies prepared by student teams, and take tests.
In addition to in-class activities, students should read the assigned readings prior to the large-group sessions and prepare the materials assigned for the small-group sessions (readings, problem sets, cases for discussion). To review the materials, students will be able to take online review tests at their own pace. Students will also prepare an in-depth case study in teams. In addition to the written analysis, student teams will present their study in class.
The course¿s 6 ECTS credits are distributed as follows: 3 credits for in-class activities (in person or online), 2 credits for students¿ individual work, 1 credit for team work.
Both the large-group and small-group teachers will hold weekly office hours (in person or online).

ASSESSMENT SYSTEM

The final grade will consist of the following components: (1) Written final exam:40%; (2) team case study: written assignment and class presentation: 20%; (3) in-class exercises and tests: 30%; (4) active participation in class: 10%.
A minimum grade of 4 over 10 in the final exam is necessary to pass the course. If the final exam's grade is below 4 but the weighted average of the final and the continuous evaluation grades is greater or equal to 5, the final grade will be: 3 if the final exam's grade is lower than 3, and 4 otherwise.

% end-of-term-examination:	40
% of continuous assessment (assigments, laboratory, practicals…):	60

BASIC BIBLIOGRAPHY

- Besanko, D., D. Dranove, M. Shanley, and S. Schaefer. Economics of Strategy. Third Edition., John Wiley & Sons, Inc., 2003
- Milgrom, P. y J. Roberts. Economía, Organización y Gestión de la Empresa., Ariel. , 1993