

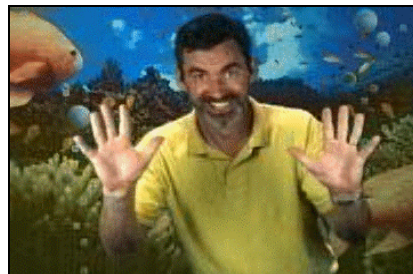
University of Northumbria
Newcastle Business School

Division of Economics and Resource Management

EC425 MICROECONOMICS 2: ECONOMICS AND
ORGANISATIONS

SEMESTER 2
2003

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Unit Code / Title

EC425 MICROECONOMICS 2: ECONOMICS AND ORGANISATIONS

Introduction

Welcome to this second level, one semester, core unit on economics and the organisation, which I hope you will enjoy.

By following this unit you should

- recognise how important economic analysis is to our understanding of the organisation, whether in the public or private sector, and be able to apply the knowledge learnt to a variety of contexts.
- identify the wider implications resulting from the microeconomic analysis of organisations, particularly public policy solutions.

More specifically we are going to examine the following questions:

- Why do we need organisations and hierarchical organisational structures?
- How can we resolve moral hazard problems (i.e. shirking) within organisations?
- What are the efficiency implications of production and cost analysis?
- What are the welfare implications associated with monopolistic and oligopolistic structures?

This approach moves us from an internal examination of the organisation to its interaction within the industrial environment and thus its economic implications for society as a whole. We are going to use traditional neo-classical analysis and game theory to address these questions, and, as you are more familiar with some elements of the former I will begin the lecture programme by examining games. This form of analysis is pervasive in economics nowadays and so you will need to be aware of its importance from the outset.

Recommended Texts

Note that I am recommending 2 texts though you should only purchase one.

Besanko D and Braeutigam R R (2002) *Microeconomics. An Integrated Approach*, J Wiley and Sons, New York.

Varian H (2003) *Intermediate Microeconomics. A Modern Approach*, 6th edition, WW Norton and Company, London.

However, both books do not quite cover the syllabus. The programme of

study set out below indicates the relevant chapters to be read in conjunction with the programme and I have indicated additional reading for weeks 3 and 4 where appropriate.

Programme of Study

There will be 17 lectures in total, plus one lecture period when an assessment exercise will be carried out. There will be 2 seminar sessions and 4 Workshops where you will use the internet as a learning resource.

The following table outlines the programme of study.

Week	Lecture	Seminar
1	Unit Introduction. Start on Game Theory: Normal Games <u>Key Reading</u> Besanko D and Braeutigam R R chapter 14 Varian chapter 28	WORKSHOPS: Introduction to the unit.
2	Game Theory: Normal Games (Continued) <u>Key Reading</u> Besanko D and Braeutigam R R chapter 14 Varian chapter 28 Game Theory: Extensive Form Games <u>Key Reading</u> Besanko D and Braeutigam R R chapter 15 section 5 pps 657-668 Varian chapters 17 and 29.	
3	Firms and Markets: Alchian and Demsetz; Coase and Williamson <u>Key Reading</u> Douma and Schreuder chapters 7,8, 10 and 11. Ricketts chapter 2	SEMINARS: Theory of the Firm Articles – Discussion of Issues
4	Principal Agent: Team Incentives <u>Key Reading</u> Schotter chapter 8 Principal Agent: Individual Incentive Schemes <u>Key Reading</u> Douma and Schreuder chapter 7 Varian chapter 36 (difficult towards the end)	
5	Production Functions <u>Key Reading</u> Besanko D and Braeutigam R R chapters 6 and 7 Varian chapters 18 and 19	SEMINARS: Questions on Production and costs.

6	<p>Production Functions</p> <p><u>Key Reading</u> Besanko D and Braeutigam R R chapters 6 and 7 Varian chapters 18 and 19</p> <p>Cost Functions</p> <p><u>Key Reading</u> Besanko D and Braeutigam R R chapters 8 and 9 Varian chapters 20 and 21</p>	
End of Week 7. Assessment 1 to be handed in: Comment on the significance of a classic article on the firm		
7	<p>Cost Functions</p> <p><u>Key Reading</u> Besanko D and Braeutigam R R chapters 8 and 9 Varian chapters 20 and 21</p>	WORKSHOPS: Multiple choice work on production and costs using the internet
8	<p>Competition and Welfare</p> <p><u>Key Reading</u> Besanko D and Braeutigam R R chapters 9 -11 Varian chapters 22 and 23</p> <p>Monopoly and Welfare</p> <p><u>Key Reading</u> Besanko D and Braeutigam R R chapters 9 -11 Varian chapters 22 and 23</p>	
9	<p>Capturing Surplus</p> <p><u>Key Reading</u> Besanko D and Braeutigam R R chapter 12 Varian chapters 25</p>	WORKSHOPS: Games, monopoly and welfare issues.
10	<p>Cournot Oligopoly and Welfare</p> <p><u>Key Reading</u> Besanko D and Braeutigam R R chapter 13 Varian chapter 27</p> <p>Other classical Oligopoly models and Welfare</p> <p><u>Key Reading</u> Besanko D and Braeutigam R R chapter 13 Varian chapter 27</p>	
11	NO LECTURE. Assessment 2: Multiple choice questions on games, production, costs and supply	WORKSHOPS: Oligopoly models
Easter Break		
12	<p>Network Economics and the Information Economy</p> <p><u>Key Reading</u> Varian chapter 36</p> <p>Plenary</p>	
13 - 15	Assessment 3: One hour Essay test	

Detailed Reading List (** = Recommended Text)

The relevance to each week is given in parentheses.

Alchian A and Demsetz H (1972) Production, Information Costs, and Economic Organisation, *American Economic Review*, 62, pp. 777-95. (Weeks 3 and 4)

Bolton P and Scharfstein D S (1998) Corporate Finance, the Theory of Finance and Organisations, *Journal of Economic Perspectives*, vol. 12, No. 4, pp. 95 – 114. (Weeks 3 and 4).

**Besanko d and Braeutigam R R (2002) *Microeconomics. An Integrated Approach*, J Wiley and Sons, New York. (All weeks except 3 and 4).

Brickley J A, Smith Jr. C W, & Zimmerman (1996) Organizational Architecture: A Managerial Economics Approach, Irwin, Boston, Mass (Weeks 3 and 4)

Coase R H (1937) The Nature of the Firm, *Economica*, 4, p. 386-405. (Weeks 3 and 4)

Dietrich M (!994) *Transaction Cost Economics and Beyond. Towards a New Economics of the Firm*. Routledge, London. (Weeks 3 and 4)

Dixit A. K. & Nalebuff B.J. (1991) *Thinking Strategically. The Competitive Edge in Business, Politics, and Everyday Life*. W. W. Norton & Company. London. (Weeks 1 and 2)

Douma S and Schreuder H (1998) *Economic Approaches to Organisations*, second edition, Prentice Hall, London. (Weeks 3 and 4)

Emerson *et al* (1988), *The Economics of 1992*, Oxford University Press. (Weeks 5, 6 and 7)

Fehr E and Gächter S (2000) Fairness and Retaliation: The Economics of Reciprocity, *Journal of Economic Perspectives*, vol. 14, No. 3, pp. 159 - 181. (Weeks 1 and 2)

Ferguson C E (1972) *Microeconomics*, Third Edition, Irwin, Homewood, Illinois. (Weeks 5, 6 and 7)

Gibbons R (1997) an Introduction to Applicable Game Theory, *Journal of Economic Perspectives*, vol. 11, No. 1, pp. 127 – 149. (Weeks 1 and 2)

Gibbons R (1998) Incentives in Organisations, *Journal of Economic Perspectives*, vol. 12, No. 4, pp. 115 – 132. (Weeks 3 and 4)

Hargreaves-Heap S & Varoufakis Y (1995) *Game Theory. A Critical Introduction*, Routledge. London. (Weeks 1 and 2)

- Hargreaves-Heap S *et al* (1992) *The Theory of Choice. A Critical Guide*, Blackwell, London. (Weeks 1 and 2)
- Heathfield D and Wibe S (1987) *An Introduction to Cost and Production Functions*, Macmillan. (Weeks 5, 6 and 7)
- Hines J R Jnr. (1999) Three sides of Harberger Triangles, *Journal of Economic Perspectives*, Vol. 13, No.2 pp. 167 – 188. (Week 8)
- Hodgson G (1988) *Economics and Institutions*, Polity, London. (Weeks 3 and 4)
- Holmstrom B and Roberts J (1998) The Boundaries of the Firm revisited, *Journal of Economic Perspectives*, vol. 12, No. 4, pp. 73 – 94. (Weeks 3 and 4)
- Jensen M. C and Meckling W. H (1976) Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure” *Journal of Financial Economics* 3, pp. 305-60. (Weeks 3 and 4)
- Kay J. (1993) *Foundations of Corporate Success. How Business Strategies Add Value*. Oxford University Press. Oxford. (Weeks 1 and 2)
- Keasey, K, Thompson S and Wright M (1997) *Corporate Governance. Economic, Management and Financial Issues*, Oxford Univ. Press. (Weeks 3 and 4)
- Koutsoyiannis A (1979) *Modern Microeconomics*, Second Edition, Macmillan, London. (All weeks except 3 and 4)
- Marris R (1963) A Model of Managerial Enterprise, *Quarterly Journal of Economics*, Vol 77, p.185. (Weeks 3 and 4)
- McMillan J (1992) *Games, Strategies, and Managers. How Managers can use Game Theory to make better Business Decisions*. Oxford University Press. Oxford. (Weeks 1 and 2)
- Migue J and Belanger G (1974) Toward a general theory of Managerial Discretion, *Public Choice*, Vol 17, p.27. (Weeks 3 and 4)
- Milgrom P and Roberts J (1992) *Economics, Organisation and Management*, Prentice-Hall, (Weeks 3 and 4)
- Moschandreas M (2000) *Business Economics*. Thompson Business Press, London. (All weeks except 10)
- Newhouse J (1970) Toward a theory of non-profit institutions: an economic model of a hospital, *American Economic Review*, Vol. 60, p.64. (Weeks 3 and 4)

- Nicholson W (1997) *Intermediate Microeconomics and its Application*, Harcourt Brace and Co. Orlando. (All weeks except week 3)
- Poundstone W. (1993) *Prisoner's Dilemma. John von Neumann, Game Theory, and the Puzzle of the Bomb*. Oxford University Press. Oxford. (Weeks 1 and 2)
- Putterman L (1986) *The Economic Nature of the Firm. A Reader*, Cambridge University Press, Cambridge. (Weeks 3 and 4)
- Ricketts M (2002) *The Economics of Business Enterprise: An Introduction to Economic Organisation and the Theory of the firm*, third edition, Edward Elgar, Cheltenham. (Weeks 3 and 4)
- Romp G (1997) *Game Theory. Introduction and Applications*, Oxford University Press. Oxford. (Weeks 1 and 2)
- Salter WEG (1966) *Productivity and Technical Change*, 2nd edition, Cambridge University Press (Weeks 5, 6 and 7)
- Schotter A (1997) *Microeconomics. A Modern Approach*, Harper Collins, New York. (All weeks except week 3)
- Shone R (1981) *Applications in Applied Intermediate Microeconomics*, Macmillan. (Weeks 5, 6 and 7)
- Williamson O. E. (1976) *Markets and Hierarchies: Analysis and Anti-Trust Implications. A Study in the Economics of Internal Organisation*, Free Press, New York. (Weeks 3 and 4)
- Williamson O. E. (1985) *The Economic Institutions of Capitalism: Firms, Markets and Relational Contracting*, Macmillan, London. (Weeks 3 and 4)
- Williamson O. E. (1963) *Managerial Discretion and Business Behaviour*, Prentice Hall, London. (Weeks 3 and 4)
- **Varian H (2003) *Intermediate Microeconomics. A Modern Approach*, 6th edition, WW Norton and Company, London. (All weeks except week 3)
- Yezer A M, Goldfarb R S and Poppen P J (1996) Does studying economics discourage cooperation? Watch what we do, not what we say or how we play, *Journal of Economic Perspectives*, Vol. 10, No.1, pp177 – 186. (Weeks 1 and 2)

Assessment Summary			
Part		%	Week
A	An Article Review	30	7
B	Multiple Choice test on games, production, costs and supply	30	11
B	Closed Book Test	40	13 - 15

<p>Format of examination 1 Hour duration</p>

Assignment Information

Assignment title	<p>Assessment 1</p> <p>Critically consider the importance of one of the following papers to our understanding of the theory of the firm</p> <p>Coase R H (1937) The Nature of the Firm, <i>Economica</i>, 4, p. 386-405.</p> <p>Or</p> <p>Williamson O E (1979) Transaction Cost Economics: The Governance of Contractual Relations, <i>Journal of Law and Economics</i>, 22: 233-61.</p>
Maximum word limit	1000 words (excluding bibliography and statistical tables but including footnotes and appendices).
Submission deadline	Friday 15 th March 2003

Assessment criteria

Assessment 1 will be marked in accordance with the following criteria:

	Essential	Non essential
Evidence of background reading	✓	
Relevance of material to the question posed	✓	
Appropriate depth of analysis	✓	
Structure and Organisation	✓	
Use of supporting data	✓	
Use of diagrams / illustrative material		✓
Use of referencing system and bibliography*	✓	
Use of case study material		✓

Overall presentation will also be taken into account.

Please note

- that referencing should be in accordance with the Harvard (author, date) System. Detailed guidelines to the Harvard System have been included in course handbooks for all courses administered by the Division of Economics. Copies of the Guide to Referencing are available from the Undergraduate Programmes Office (Room 219, Northumberland Building). ***A failure to reference correctly will impact negatively upon your mark.***
- ***that it is not acceptable to submit work in excess of the word limit.*** Such work is unlikely to be marked. A mark of 1% could be recorded and carried forward to the level average on which your progression/award is determined.

Submission arrangements

Assignments should be handed in to the Newcastle Business School Reception in accordance with the above deadline at the following times:

Term-time

Monday-Thursday 8.30-18.30

Friday 8.30-16.30

Outside Term-time

Monday-Thursday 8.30-17.30

Friday 8.30-16.30

Assignments must be handed in together with a multi-part assignment cover sheet whether or not you are submitting the assignment personally. This will be stamped, signed and dated by a member of the administrative staff and the bottom part will be returned to you immediately. You should retain this as it represents your proof that the assignment has been submitted. Assignment cover sheets are obtainable from the Newcastle Business School Reception.

Your signature on the cover sheet will confirm:

- a) the word count for your submitted piece of work;
- b) that referencing is in accordance with the Harvard System (see Guide to Referencing); **and**
- c) that the work submitted is your own.

Please note that

- ***Other than in exceptional circumstances and with the prior agreement of the Module Tutor or Programme Leader, the submission of assignments by fax or by e-mail is not acceptable.***
- ***Unless an extension of the assignment deadline has been granted by either your Programme Director or Programme Leader, a zero mark will be applied to any work submitted after the agreed deadline.***