In most of economic theory, a consumer or a firm is treated as an individual agent. That agent’s choices are modeled in terms of maximization of a preference relation or a profit function. The set of agents is specified to be an exogenous feature of the economy. Regarding firms, in particular, most equilibrium models either predict that all firms in an industry will be of the same size, or else have no predictions regarding the size distribution of firms.

But, in actual economies,

1. Most households, and nearly all firms, are multi-person organizations.
   - Important classes of organizations, including modern day families and commercial partnerships, are not structured to give dictatorial control to a designated person.
   - Even in organizations where there is nominally such a person (for example, the CEO), that person typically must compromise and lead by consensus (which, in large organization will fall short of unanimity) in practice.

2. The membership and structure of an organization, and the distribution of the rents generated by the organization among its members, are endogenous.

3. Organizations of heterogeneous characteristics—for example, size—co-exist in equilibrium within industries and sectors of the economy. The size distributions of various types of organization appear to share some common features.

4. Some observers believe that “hold-up problems” and other incentive problems within organizations are a significant cause of economic inefficiency.

5. Organizations form (marriage, incorporation) and dissolve (divorce, liquidation) and, in the case of firms, are a form of transferable property.

6. In most countries, the laws consider some types of organization (notably, corporations) as separate persons from their members. In particular, owners of limited-liability corporations are not responsible for payment of corporate debt.
The course is devoted to studying various economic models of organizations, and of economies populated by organizations, that bear on the points above. Plans will be adjusted, if necessary, as the course progresses. Several further readings, as well as lecture notes by the instructor, may be provided.

**Topic 1** *Introduction (1.11)*


**Topic 2** *When can an organization be modeled as an individual? (1.13–1.27)*


**Topic 3** *Who joins which organization? How are the rents divided? (2.1–2.17)*


**Topic 4** Hierarchical organization and the size distribution of firms (2.22–3.3)


**Topic 5** Contractual setting of incentives in organizations (3.15–3.31)


**Topic 6** Capital structure, corporate takeovers and dissolution, and incentives (4.5–4.21)


**Topic 7** The puzzle of limited liability (4.26–4.28)


Availability of readings

Course readings can be downloaded as 457W.zip from the Lessons tab of the ANGEL web page for this course.

Advanced economics and calculus

The readings are drawn from the scientific literature in economics. In some cases, only part of the article will be assigned. Typically that part will consist of the introduction and conclusion, and a simple example that the author provides to illustrate the concepts and results that are presented. Such an example may also be provided in the lectures, if it is not provided in the paper being discussed.

In general, it is likely to be difficult to understand these readings without attending the lectures and taking good notes.

Some of the readings involve calculus. However, knowledge of calculus is not a prerequisite for this course. In most cases, calculus notation is used merely as a symbol for the slope of a line, and this fact is apparent from the accompanying verbal explanation in the text. In such a case, a student is expected to be able to reformulate the author’s argument as an informal, graphical argument regarding the slope. On the few occasions where an author makes more ambitious use of the calculus, students are not held responsible to understand the details.

Textbooks

There is no required textbook for this course.


E-mail and communication

E-mail messages to the instructor should be sent to eug2@psu.edu. The subject line should begin with ‘ECON 457W’. The instructor’s e-mail client will use this tag to filter the message to a separate
folder for the course. If you must send a message from the ANGEL e-mail facility, then check the “Send a copy of this message to recipients’ Internet e-mail accounts” box.

Please see the instructor if you have concerns or comments about the course. In special circumstances, you may contact the Director of Undergraduate Studies in Economics or provide feedback via a comment box that the Department maintains in 303 Kern.

Course requirements and grading

The course grade will be based on two papers.

The paper will be on an assigned topic pertaining to the current or recent course material. The first assignment tentatively will be made on 2.1, a draft will be submitted on 2.15, comments will be provided on 2.22, and the final draft will be due on 3.1.

The first assignment tentatively will be made on 3.22, a draft will be submitted in 4.5, comments will be provided on 4.12, and the final draft will be due on 4.19.

All drafts will be submitted by e-mail. No draft, either initial or final, will be accepted late, unless there is a valid excuse as specified below. When a final draft has not been submitted on time, a grade for the paper will be assigned on the basis of the preliminary draft.

Further instructions regarding format and submission of drafts will be given when the first assignment is made.

Class-schedule exceptions

The instructor has Faculty Senate obligations on 1.25, 3.15, and 4.28. If necessary, the lectures for those dates will be moved to alternate times.

Academic Integrity

Students must observe the CLA policy regarding academic integrity, which also specifies the procedure to be followed when a student is charged with violating the policy. The student resource web page for this policy is

http://www.la.psu.edu/CLA-Academic_Integrity/integrity.shtml

Given that the grade in this course is based on research papers, plagiarism is a major issue regarding academic integrity. You should follow the advice provided in “Understanding and avoiding plagiarism” on the student-resources webpage.

Your use of citations should be based on a common-sense standard. If you mention a fact that has been prominently discussed in class, and that is documented in a reading listed on this syllabus,
or posted on the ANGEL webpage for the course, then you do not need to provide a citation. In that case, there is common knowledge between the author and the audience (that is, between the student and the instructor) of the source. Otherwise, source material for a paper, either directly quoted or paraphrased, must be cited. When in doubt, cite.

Valid Excuses for Absence

During the course, many possible situations may arise that would result in your inability to attend class, attend exams, or perform at a minimally acceptable level during an examination. Illness or injury, family emergencies, certain University-approved curricular and extra-curricular activities, and religious holidays can be legitimate reasons to miss class or to be excused from a scheduled examination.

The Economics Department policy regarding absence, including the student’s responsibility to document an excuse, is found at http://www.econ.psu.edu/undergraduate/#valid.

Disability Access

The Pennsylvania State University encourages qualified people with disabilities to participate in its programs and activities and is committed to the policy that all people shall have equal access to programs, facilities, and admissions without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by state or federal authorities. If anticipate needing any type of accommodation in this course or have questions about physical access, then please the instructor know as soon as possible.