

Course: Incentives in Organizations (Master)

Course content

We study advanced problems of coordination and incentive provision within and between firms. These problems are analyzed by applying methods from organizational economics, contract theory, and game theory.

In particular, we cover the following topics:

1. Optimal relational contracting within and between firms (combination of explicit and relational contracts, effects on firm boundaries)
2. Coordinating and incentivizing teamwork (norms, responsibility, career concerns)
3. Benefits and costs of hierarchies (knowledge hierarchies, influence activities, collusion)

Literature

The lecture is based on the following theoretical research papers:

- Baker, Gibbons, Murphy (1994): Subjective Performance Measures in Optimal Incentive Contracts, *Quarterly Journal of Economics*, 109, 1125-1156, <https://doi.org/10.2307/2118358>
- Levin (2002): Multilateral Contracting and the Employment Relationship, *Quarterly Journal of Economics* 117, 1075-1103, <https://doi.org/10.1162/003355302760193968>
- Baker, Gibbons, Murphy (2002): Relational Contracts and the Theory of the Firm, *Quarterly Journal of Economics*, 117, 39-84, <https://doi.org/10.1162/003355302753399445>
- Crémer, J. (1986): Cooperation in Ongoing Organizations, *Quarterly Journal of Economics* 101, 33-49, <https://doi.org/10.2307/1884640>
- Sliwka (2006), On the notion of responsibility in organizations, *Journal of Law, Economics, and Organization* (22), 523-547, <https://doi.org/10.1093/jleo/ewj012>
- Jeon (1996), Moral Hazard and Reputational Concerns in Teams: Implications for Organizational Choice, *International Journal of Industrial Organization* 14, 297-315, [https://doi.org/10.1016/0167-7187\(95\)00482-3](https://doi.org/10.1016/0167-7187(95)00482-3)
- Garicano (2000), Hierarchies and the Organization of Knowledge in Production, *Journal of Political Economy* (108), 874-904, <https://doi.org/10.1086/317671>
- Inderst, Müller, and Wärneryd (2005), Influence costs and hierarchy, *Economics of Governance* 6, 177-197, <https://doi.org/10.1007/s10101-004-0084-8>
- Inderst, Müller, and Wärneryd (2007), Distributional conflict in organizations, *European Economic Review* 51, 385-402, <https://doi.org/10.1016/j.euroecorev.2006.01.003>
- Tirole, J. (1986): Hierarchies and Bureaucracies: On the Role of Collusion in Organizations, *Journal of Law, Economics, and Organization* 2, 181-214, <http://www.jstor.org/stable/765048>

In the tutorial, students present related experimental and empirical studies.