



Agricultural Economics 9050

# Theories of the Firm

Fall 2010; 3 credit hours

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## Schedule

Wednesdays 2:00-4:50 p.m. in 320 Mumford Hall

## Office hours

E-mail or call instructor to set up an appointment.

## Course web site

This course uses Blackboard: <https://blackboard.missouri.edu>.

## Prerequisites

AGEC 8050 and graduate standing or instructor's consent.

## Course Description

Advanced seminars of theories within the economic analysis of the firm attempting to explain why there are firms, what are their boundaries, how are they organized internally. Including but not limited to Coasean firm, transaction cost economics, and resource-based view.

## Course Overview and Purpose

This course provides a detailed analysis and historic overview of the modern theory of the firm. It attempts to provide the learner with an overall understanding for the economic study of the firm as well as in-depth knowledge of the modern theories and therefore the tools/knowledge to conduct detailed and scholarly analyses in this field. It is designed primarily for second- or third-year Ph.D. students who have completed their core courses in economics, agricultural economics, management, or finance (or related disciplines) and are beginning dissertation research related to organizations, contracting, strategy, and governance.

The course is heavily based in reading of scholarly texts on the firm and closely related topics and is therefore conducted in seminar form. It is a requirement that you read the assigned articles and other texts prior to class. You should thoroughly prepare all of the readings assigned for each session, paying particular attention to the scope of research, background and approach, theoretical motivations, research techniques, findings and interpretations, and contributions to the literature. Even though each of the seminars are introduced by the instructor(s), the students will play the role of discussion leaders and participants and will, when so instructed, review assigned material.

The course is divided into eight sections: (1) pre-Coasean economic treatments of the firm; (2) the Coasean view of the firm; (3) The pillars of the modern theory of the firm; (4) Transaction Cost Economics; (5) agency theory; (6) property rights theory; (7) the resource-based view; and (8) other approaches to the firm in the market. Each section provides an overview and discusses the pillars and major influences in this subtopic within the theory of the firm.

### **Course Objectives**

Learners partaking in this course will throughout course discussions demonstrate that they can:

1. Identify and analyze the historical foundations for the economic study of the firm and the evolution into and of modern theories;
2. Analyze the theory of the firm literature using modern, post-Coasean assumptions, concepts and theories;
3. Identify and assess theory of the firm concepts and assumptions in historic approaches as well as recent and contemporary literature from the points of view of multiple theories;
4. Evaluate the state of the theoretical framework for the contemporary economic study of the firm, its problems and shortcomings;
5. Identify gaps and formulate research questions that have the potential to advance our collective knowledge of the economic concept of the firm through solving those problems; and
6. Conduct high-quality scholarly research on the theory of the firm.

### **Assignments and examinations**

This is a Ph.D. level seminar course, which means there will be no formal written in-class examinations. Your grade will depend on sufficient preparation for class in in-class discussions (careful study of assigned readings and occasional oral in-class summary/analysis to support class discussion); summaries of assigned readings (to be turned in on paper no later than at the beginning of each class); a theoretical or empirical paper and in-class presentation of the same paper.

Preparation for class/readings	15%
Written summaries of readings	20%

Term paper	45%
In-class presentations	<u>20%</u>
	100%

*Preparation based on assigned readings* count for 15% of your grade and will be tested continuously throughout the semester. The instructor will ask students in class to summarize readings, identify and discuss main points, and supply the class with a brief analysis of the points and a paper's overall significance and contribution to the literature.

*Summaries of assigned readings* count for 20% of your grade. A short (no more than 4 pages double-spaced with standard 1"-margins) summary of an article (or book) of your choice from assigned readings for that day's class. The summary must contain full citation of article/book, a brief summary, your analysis of main points, and your view/assessment/evaluation of the arguments and analysis provided in the article/book. Summaries are due no later than at the beginning of each class and will be graded A, B, C or F.

*The term paper* counts for 45% of your grade and must be an original theoretical or empirical paper that is broadly related to the topics discussed in class. A theoretical paper offers and justifies a new theory in the light of available scholarly research and potentially results in a testable hypothesis; an empirical paper tests a proposed hypothesis using actual data. There is no limit to length of paper, but it should normally be 35-40 pages double-spaced excluding cover page, table of contents, and references. Papers are due Friday after finals week at 5:00 p.m. and will be graded as were they submitted to a peer reviewed journal: A is awarded papers of publishable quality (accept or resubmit after minor revisions); B is awarded papers with enough promise to be publishable after revision (after greater than minor but less than substantial revision); papers without publishable qualities are designated the grades C or F. Both instructor will individually review your paper and then together reach an editorial decision.

*In-class presentations of your paper* counts for 20% of your grade. You will make three presentations: one topic presentation with your general paper idea for in-class discussion and feedback after 1/3 of the class that counts for 5%; one of your elaborated draft or half-finished paper after 2/3 of the class that counts for 5%; and a final presentation of your findings the week before finals week that counts for 10%. The final presentations need to be conducted in a professional manner as were they conference presentations.

Your grade on presentations will be based on professionalism, clarity in thought and presentation, and ability to identify and focus on main points in your research as well as ability to answer questions in a professional manner. Note that your presentations are the only means you have to get formal feedback on the evolution of your paper and that this is also part of your grade. (You

are also welcome to visit with instructor to discuss your paper [ideas] – this will, however, not be part of your grade.)

All three in-class presentations are limited to 10 minutes of presentation and 10 minutes of discussion. You may use in-class technology for your presentations – contact the instructor well in advance to arrange with technological equipment.

*Turn in your assignments on time!* Grades will be reduced 10% for each day an assignment is submitted past the due date without prior approval. Late submission of readings summaries is generally unacceptable, since the in-class discussion will suffer as a consequence of learners not having digested the material. Therefore, the grade *F* will be awarded each readings summary submitted after deadline.

### **Attendance and participation**

You are expected to attend and participate in, as well as prepare for, *all* class discussions. In accordance with University of Missouri policy, there are no excused or official absences; contact the instructor prior to the scheduled class session in case of illness, emergency, or if special circumstances arise.

Poor performance/participation in class discussions will result in lower grades according to the above section: Assignments and examinations. The instructor reserve the right to dismiss/drop students from this course in case of excessive absenteeism.

### **Course Literature and Reading Schedule**

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**1    Section I: Pre-Coasean Economic Treatments of the Firm**

(a) The 18<sup>th</sup> century: Cantillon and Smith.

- Richard Cantillon, *Essay on the Nature of Commerce in General*, 1755. Book I, chapter 7.
- Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776. Book I, chapters 1-3

**2    (b) The 19<sup>th</sup> century: Marx and Mill.**

- Karl Marx, *Capital* vol. 3, 1894.
- John Stuart Mill, *Principles of Political Economy*. Book I, chapters 1-9.

**3    (c) The neoclassical view: Marshall.**

- Alfred Marshall, *Principles of Economics*. Book IV, chapters 8-12.

**4    Section II: The Coasean View of the Firm**

(a) Ronald Coase

- Ronald Coase, “The Nature of the Firm,” *Economica*, 1937.

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- Ronald Coase, "The Nature of the Firm: Origin," *Journal of Law and Economics*, 1988.
  - Ronald Coase, "The Nature of the Firm: Meaning," *Journal of Law and Economics*, 1988.
  - Ronald Coase, "The Nature of the Firm: Influence," *Journal of Law and Economics*, 1988.

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5 (b) Herbert Simon and the Authority Relation

- Herbert Simon, *Administrative Behavior*, 1957
- Herbert Simon, "A Formal Theory of the Employment Relation," in Simon, *Models of Man* (1957), pp. 183-195.
- Oliver Williamson, Michael Wachter and Jeffrey Harris, "Understanding the Employment Relation: The Analysis of Idiosyncratic Exchange," *The Bell Journal of Economics* 1975.

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6 Student Presentations of Paper Topics and In-Class Discussion.  
(No readings)

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7 Section III: The Pillars of the Modern Theory of the Firm

- Oliver Williamson, "Hierarchical Control and Optimum Firm Size," *The Journal of Political Economy*, 75(2), 1967.
- Oliver Williamson, "Markets and Hierarchies: Some Elementary Considerations," *American Economic Review*, 63(2), 1973.
- Armen Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review*, 62, 1972, 777-795.
- Michael Jensen and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics*, 3, 1976, 305-360.
- Benjamin Klein, Robert Crawford, and Armen Alchian, "Vertical Integration, Appropriable Rents and the Competitive Contracting Process," *Journal of Law and Economics*, 21, 1978, 297-326.

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8 Section IV: Transaction Cost Economics

- Oliver Williamson, *Markets and Hierarchies, Analysis and Antitrust Implications: A Study in the Economics of Internal Organization*, 1975.
- Oliver Williamson, "Transaction-Cost Economics: The Governance of Contractual Relations," *Journal of Law and Economics*, 22(2), 1979.
- Oliver Williamson, "Vertical Integration: Theory and Policy," *The Economic Institutions of Capitalism*, 1985, chapter 4, 1985.
- Oliver Williamson, "Contractual Man," *The Economic Institutions of Capitalism*, 1985, chapter 2.
- Oliver Williamson, "The Limits of Firms: Incentive and Bureaucratic Features," *The Economic Institutions of Capitalism*, 1985, chapter 6.

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- Oliver Williamson, "The Logic of Economic Organization," *Journal of Law, Economics and Organization*, 1988.
- Oliver Williamson, "Comparative Economic Organization: The Analysis of Discrete Structural Alternatives," *Administrative Science Quarterly*, 1991.
- Oliver Williamson, *The Mechanisms of Governance*, 1996.

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10 Student Presentations of Paper Drafts and In-Class Discussion.  
(No readings)

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11 Section V: Agency Theory

- Adolf A. Berle & Gardiner C. Means, *The modern corporation and private property*, 1932.
- Eugene Fama, "Agency Problems and the Theory of the Firm," *Journal of Political Economy*, 88(2), 1980, 288-307.
- Eugene Fama and Michael Jensen, "Separation of Ownership and Control," *Journal of Law and Economics*, 26, 1983, 301-325.
- Eugene Fama and Michael Jensen, "Agency Problems and Residual Claims," *Journal of Law and Economics*, 26, 1983, 327-349.
- Eugene Fama and Michael Jensen, "Organizational Forms and Investment Decisions," *Journal of Financial Economics*, 14, 1985, 101-119.
- Michael Jensen and William Meckling, "Rights and Production Functions: An Application to Labor-Managed Firms and Codetermination," *Journal of Business*, 52 (4), 1979, 460-506.
- Michael Jensen and William Meckling, "Specific and General Knowledge, and Organizational Structure," *Journal of Applied Corporate Finance*, 8, 1992, 4-18.

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12 Section VI: Property Rights Theory

- Oliver Hart, "Incomplete Contracts and the Theory of the Firm," *Journal of Law, Economics and Organization*, 1988.
- Oliver Hart and John Moore, "Property Rights and the Nature of the Firm," *Journal of Political Economy*, 98, 1990, 1119-58.
- Sanford Grossman and Oliver Hart, "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration," *Journal of Political Economy* 94, 1986, 691-719.

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13 Section VII: The Resource-Based View

- Anoop Madhok, "Reassessing the Fundamentals and Beyond: Ronald Coase, the Transaction Cost and Resource-based Theories of the Firm and the Institutional Structure of Production," *Strategic Management Journal*, 23, 2002, 535-550.
- Jay Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management*, 17, 1991, 99-120.
- Jay Barney, M. Wright and D.J. Ketchen, "The Resource-Based View of the Firm: Ten Years After 1991," *Journal of Management*, 27, 2001, 625-641.
- Kirsten Foss and Nicolai Foss, "Value and Transaction Costs: How the Economics of Property Rights Furthers the RBV," *Strategic Management Journal*, 26, 2005, 541-553.
- Birger Wernerfelt, "A Resource-Based View of the Firm," *Strategic Management Journal* 5, 1984, 272-280.
- Birger Wernerfelt, "A Resource-Based View of the Firm: Ten Years Later," *Strategic Management Journal* 16, 1995, 272-280.
- Richard Rumelt, "Toward a Strategic Theory of the Firm," *Competitive Strategic Management*, R. Lamb (ed.), Englewood Cliffs, Prentice-Hall, 1984.

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14 Section VIII: Other Approaches to the Firm in the Market

- Peter Klein, "Economic Calculation and the Limits of Organization," *Review of Austrian Economics* 9, no. 2 (1996): 51-77
- Nicolai Foss and Peter Klein, "Entrepreneurship and the Economic Theory of the Firm: Any Gains from Trade?" *Handbook of Entrepreneurship Research: Disciplinary Perspectives*, R. Agarwal, S.A. Alvarez, and O. Sorenson (eds.), Springer, 2005, 55-80.
- Nicolai Foss and Ibuki Ishikawa, "Towards a Dynamic Resource-Based View: Insights from Austrian Capital and Entrepreneurship Theory," *Organization Studies*, 28, 2007, 749-772.
- Kirsten Foss, Nicolai Foss, and Peter Klein, "Original and Derived Judgment: An Entrepreneurial Theory of Economic Organization," *Organization Studies*, 28, 2007, 1893-1912.
- Ulrich Witt, "Evolutionary Economics," Papers on Economics and Evolution 2006-05, Max Planck Institute of Economics, 2006.

15 Student Presentations of Term Papers.

No readings

16 Term Papers Due.

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**University of Missouri and CAFNR Academic Policy Statements and ADA Statement**

If you need accommodations because of a disability, if you have emergency medical information to share, or if you need special arrangements in case the building must be evacuated, please see your instructor immediately. To request academic accommodations, students must also register with the Office of Disability Services, (<http://disabilityservices.missouri.edu>), S5 Memorial Union, 882-4696.

This office is responsible for reviewing documentation provided by students requesting academic accommodations, and for accommodations planning in cooperation with students and instructor, as needed and consistent with course requirements. For other MU resources for students with disabilities, click on "Disability Resources" on the MU homepage.

**Statement for Intellectual Pluralism**

The University community welcomes intellectual diversity and respects student rights. Students who have questions concerning the quality of instruction in this class may address concerns to either the Departmental Chair or Divisional leader or Director or the Director of the Office of Students Rights and Responsibilities (<http://osrr.missouri.edu/>). All students will have the opportunity to submit an anonymous evaluation of the instructor(s) at the end of the course.

**Academic Integrity**

Academic integrity is fundamental to the activities and principles of a university. All members of the academic community must be confident that each person's work has been responsibly and

honorably acquired, developed, and presented. Any effort to gain an advantage not given to all students is dishonest whether or not the effort is successful. The academic community regards breaches of the academic integrity rules as extremely serious matters. Sanctions for such a breach may include academic sanctions from the instructor, including failing the course for any violation, to disciplinary sanctions ranging from probation to expulsion. When in doubt about plagiarism, paraphrasing, quoting, collaboration, or any other form of cheating, consult the course instructor. For an online version of the official rules and regulations at the University of Missouri, refer to the ***M-Book Online*** at <http://studentlife.missouri.edu/mbook.php>

### **CAFNR Diversity Statement**

We aspire to build a community where diversity is embraced through educational and program excellence. Which will lead to: Respect for others, awareness of choices, variety of experiences, understanding of issues, and a community where we all feel safe to cross boundaries.