

Business Economics

2021-22 Academic Year

Master of Research in Economics, Finance and Management

1. Description of the subject

- Business Economics Code: 31599
- Total credits: 3 ECTS Workload: 75 hours
- Term: 2nd
- Type of subject: Optional
- Department of Economics and Business
- Teaching team: [Benito Arruñada](#) and [Mircea Epure](#)

2. Teaching guide

• Introduction

This course bridges between economics and management by combining the best of both disciplines. Economics provides rigorous frameworks but often departs from reality for the sake of tractability. This pushes theory to rely on too narrow assumptions and empirics to myopically trade off identification for relevance. Management suffers the opposite bias, when its reliance on casuistic induction falls in the trap of empty theorizing and ad hoc explanations.

Business Economics will tackle this tension by drawing on theories and empirical analyses focused on transaction costs, property rights, law and economics, public choice, and entrepreneurship as applied to explain key organizational problems such as vertical integration, divisionalization, regulation, and specialization of ownership and control. It will cover many current business dilemmas, such as the role of blockchain governance for impersonal transactions, management practices for firm productivity, and the role of corporations, family and entrepreneurial firms in society.

The course emphasizes the analysis of real cases, policy and organizational applications and the methodological difficulties faced by the scientific inquiry in this field. It shall therefore: (1) deepen your understanding of business questions relevant for jobs in research, consultancy, government, and industry, (2) provide you with fundamentals for analyzing managerial and policy questions, (3) suggest projects to which you can relate, and (4) engage your curiosity about real economic organizations.

All BGSE Economics and MRes students can take this class. No pre-requisites.

• Contents

Influential background readings are preceded by an asterisk (*); applications to discuss are preceded by a dagger (+). Other items are included for bibliographic completeness.

Core topics to be covered in class are those in bold.

Complementary topics will not be directly covered in class. They are included as support references for core topics and possible sources for students' papers.

FIRST PART (Arruñada)

1. Presentation and methodological introduction (one hour)

- * Hayek, F. A. 1989. The Pretence of Knowledge. *American Economic Review* 79(6), 3-7.
- * Coase, R. H. 1992. The Institutional Structure of Production. *American Economic Review* 82(4), 713-719.
- Akerlof, G. A. 2020. Sins of Omission and the Practice of Economics. *Journal of Economic Literature* 58(2), 405-418.
- Sims, C. A. 2010. But Economics Is Not an Experimental Science. *Journal of Economic Perspectives* 24(2), 59-68.

2. Specialization and exchange: Markets and politics

- * Hayek, F. A., 1945. The Use of Knowledge in Society. *American Economic Review* 35(4), 519-530.
- * Coase, R. H., 1960. The Problem of Social Cost. *Journal of Law and Economics* 3, 1-44.
- * Frank, R. H. 2007. *Microeconomics and Behavior*, 9th ed. McGraw-Hill, New York (excerpts from Ch. 16, "Externalities, Property Rights, and 'The Coase Theorem'").
- * Brickley, J. A., Smith, Jr. C.W., Zimmerman J. L. 2016. *Managerial Economics and Organizational Architecture*, 6th ed. McGraw-Hill, New York (Ch. 21, "Understanding the Business Environment: The Economics of Regulation"), pp. 655-683.
- + Coase, R. H. 1937. The Nature of the Firm. *Economica* 4(16), 386-405.
- + Arruñada, B. 2020. The Impact of Experience on How We Perceive the Rule of Law. *Journal of Institutional Economics* 16(3), 251-269.

3. The institutional support of business activity: A contractual perspective

- * Cooter, R., Ulen, T. 2016. *Law and Economics*, 6th ed. Pearson: Boston, Ch. 8, "An Economic Theory of Contract Law", pp. 276-306.
- * Arruñada, B. 2001. The Role of Institutions in the Contractual Process. In B. Deffains and T. Kirat, eds., *Law and Economics in Civil Law Countries*, Elsevier Science, Amsterdam, pp. 177-196.
- + Arruñada, B., Casari, M. 2016. Fragile Markets: An Experiment on Judicial Independence. *Journal of Economic Behavior and Organization* 129, 142-156.
- + Arruñada, B. 2016. How Rome Enabled Impersonal Markets. *Explorations in Economic History* 61, 68-84.
- + Arruñada, B., González-Díaz, M., Fernández, A. 2004. Determinants of Organizational Form: Transaction Costs and Institutions in the European Trucking Industry. *Industrial and Corporate Change* 13(6), 867-882.
- + World Bank, 2018. *Doing Business 2019: Training for Reform*, World Bank. Washington, D.C. (focus on "Starting a Business" and "Registering property" indicators).

4. Governance of relational transactions (Complementary)

- * Williamson, O. E. 1979. Transaction-Cost Economics: The Governance of Contractual Relations. *Journal of Law and Economics* 22(2), 233–261.
- * Levin, J. 2003. Relational Incentive Contracts. *American Economic Review* 93(3), 835–857.
- * Klein, B., Leffler, K. 1981. The Role of Market Forces in Assuring Contractual Performance. *Journal of Political Economy* 89(4), 615–641.
- + Zanarone, G. 2013. Contract Adaptation under Legal Constraints. *Journal of Law, Economics, and Organization* 29(4), 799–834.
- + Arruñada, B. Garicano, L., Vázquez, L. 2001. Contractual Allocation of Decision Rights and Incentives: The Case of Automobile Distribution. *Journal of Law, Economics, and Organization* 17(1), 256–283.
- + Arruñada, B., Vázquez, X. H. 2006. When Your Contract Manufacturer Becomes Your Competitor. *Harvard Business Review* 84(9), 135–145.

5. Property rights (Complementary)

- + Arruñada, B. 2003. Property Enforcement as Organized Consent. *Journal of Law, Economics, and Organization* 19(2), 401–444.
- + Arruñada, B. 2007. Pitfalls to Avoid when Measuring the Institutional Environment: Is 'Doing Business' Damaging Business? *Journal of Comparative Economics* 35(4), 729–747.
- + Arruñada, B., Garoupa, N. 2005. The Choice of Titling System in Land. *Journal of Law and Economics* 48(2), 709–727.
- + Arruñada, B. 2018. Evolving Practice in Land Demarcation, *Land Use Policy*. 77(September): 661–75.
- Arruñada, B., Zanarone, G. Garoupa, N. 2019. Property Rights in Sequential Exchange. *Journal of Law, Economics, and Organization* 35(1), 127–153.
- Arruñada, B. 2017. Property as Sequential Exchange: The Forgotten Limits of Private Contract. *Journal of Institutional Economics* 13(4), 753–783.
- Arruñada, B., Marco Fabbri, & M. Faure. 2021. The Effect of Land Titling on Litigation. *Working Paper*.

6. Blockchain: Limitations and opportunities (Complementary)

- * Narayanan, A, Bonneau. J., Felten, E., Miller, A., Goldfeder, S. 2016. *Bitcoin and Cryptocurrency Technologies: A Comprehensive Introduction*, Princeton University Press: Princeton, pp. 1–26.
- + Gans, J. S. 2019. The Fine Print in Smart Contracts. *NBER Working Paper* 25443.
- + Arruñada, B. 2019. Prospects of Blockchain in Contract and Property. *European Property Law Journal* 8(3), 231–259.
- + Arruñada, B., Espinosa, M., Garicano, L., Zanarone, G. 2020. The Birth of Decentralized Governance. *Working Paper*.

SECOND PART (Epure)

7. Presentation and methodological introduction (one hour)

- * Williamson, O. E. 2000. The New Institutional Economics: Taking Stock, Looking Ahead. *Journal of Economic Literature* 38(3), 595–613.

- * Gibbons, R. 2005. Four Formal(izable) Theories of the Firm? *Journal of Economic Behavior & Organization* 58(2), 200-245.
- * Simon, H. A. 1991. Organizations and Markets. *Journal of Economic perspectives* 5(2), 25-44.
- Klein, P. G., Holmes, R. M., Foss, N. J., Terjesen, S., Pepe, J. 2021. Capitalism, Cronyism, and Management Scholarship: A Call for Clarity. *Academy of Management Perspectives*.
- Williamson, O. E. 1985. *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. The Free Press, New York. Chapter on "Transaction Cost Economics", pp. 15-42.
- North, D. C. 1991. Institutions. *Journal of Economic Perspectives* 5(1), 97-112.

8. Divisionalization: Performance control and management practices

- * Jensen, M. C., Meckling, W. H. 1998. Divisional Performance Measurement. In Jensen, M., *Foundations of Organizational Strategy*, Harvard Business Press, Cambridge, MA, pp. 345-361.
- * Klein, B. 1995. The Economics of Franchise Contracts. *Journal of Corporate Finance* 2(1-2), 9-37.
- Brickley, J. A., Smith, Jr. C.W., Zimmerman J. L. 2016. *Managerial Economics and Organizational Architecture*, 6th ed. McGraw-Hill, New York (Ch. 17, "Divisional Performance Evaluation"), pp. 537-566.
- + Abernethy, M. A., Bouwens, J., van Lent, L. 2004. Determinants of Control System Design in Divisionalized Firms. *The Accounting Review* 79(3), 545-570.
- + Gerakos, J., Ittner, C., Moers, F. 2018. Compensation Objectives and Business Unit Pay Strategy. *Journal of Management Accounting Research* 30(2), 105-130.
- * Bloom, N., Van Reenen, J. 2010. Why Do Management Practices Differ Across Firms and Countries? *Journal of economic perspectives* 24(1), 203-224.
- Gibbons, R., Henderson, R. 2013. What Do Managers Do? Exploring Persistent Performance Differences Among Seemingly Similar Enterprises. In Gibbons R., Roberts J., eds., *Handbook of Organizational Economics*, Ch. 17, Princeton University Press.
- + Bloom, N., Sadun, R., Van Reenen, J. 2012. The Organization of Firms Across Countries. *Quarterly Journal of Economics* 127(4), 1663-1705.

9. Contracting, ownership and control

- * Fama, E. F., Jensen, M. C. 1983. Agency Problems and Residual Claims. *Journal of Law and Economics* 26(2), 327-349.
- * Jensen, M. C., Meckling W. H. 1976. Theory of Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics* 3(4), 305-360.
- Larcker, D., Tayan, B. 2015. *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences*. Pearson Education. Ch. 1, 3, 8.
- + Bertrand, M., Mullainathan, S. 2001. Are CEOs Rewarded for Luck? The Ones Without Principals Are. *Quarterly Journal of Economics* 116(3), 901-932.
- + Kaplan, S. N., Sorensen, M. 2021. Are CEOs different? *Journal of Finance*, in press.
- + Ahern, K. R., Dittmar, A. K. 2012. The changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation. *Quarterly Journal of Economics* 127(1), 137-197.

- Bennedsen, M., Pérez-González, F., Wolfenzon, D. 2018. Evaluating the Impact of the Boss: Evidence from CEO Hospitalization Events. *Journal of Finance* 75(4), 1877-1911.
- Edmans, A., Holderness, C. G. 2017. Blockholders: A Survey of Theory and Evidence. In *Handbook of the Economics of Corporate Governance*, North-Holland, pp. 541-636.

10. Comparative governance: Institutions, norms, and culture (Complementary)

- * La Porta R., Lopez-de-Silanes F. Schleifer A. 1999. Corporate Ownership Around the World. *Journal of Finance* 54(2), 471-517.
- * Aguilera, R. V., Jackson, G. 2003. The Cross-National Diversity of Corporate Governance: Dimensions and Determinants. *Academy of management Review* 28(3), 447-465.
- * Guiso, L., Sapienza, P., Zingales, L. 2006. Does Culture Affect Economic Outcomes? *Journal of Economic perspectives* 20(2), 23-48.
- Guillén, M.F., Capron, L. 2016. State Capacity, Minority Shareholder Protections, and Stock Market Development. *Administrative Science Quarterly* 61(1), 125-160.
- + Haveman, H. A., Jia, N., Shi, J., Wang, Y. 2017. The Dynamics of Political Embeddedness in China. *Administrative Science Quarterly* 62(1), 67-104.
- + Giannetti, M., Zhao, M. 2019. Board Ancestral Diversity and Firm Performance Volatility. *Journal of Financial and Quantitative Analysis* 54(3), 1117-1155.

11. Governance in family firms and entrepreneurship (Complementary)

- * Bertrand, M., Schoar, A. 2006. The Role of Family in Family Firms. *Journal of economic perspectives* 20(2), 73-96.
- + Bennedsen, M., Nielsen, K. M., Pérez-González, F., Wolfenzon, D. 2007. Inside the Family Firm: The Role of Families in Succession Decisions and Performance. *Quarterly Journal of Economics* 122(2), 647-691.
- + Amore, M. D., Epure, M. 2021. Riding Out of a Financial Crisis: The Joint Effect of Trust and Corporate Ownership. *Journal of Comparative Economics* 49(1), 92-109.
- + Bandiera, O., Lemos, R., Prat, A., Sadun, R. 2017. Managing the Family Firm: Evidence from CEOs at Work. *Review of Financial Studies* 31(5), 1605-1653.
- * Foss, N. J., Klein, P. G. 2020. Entrepreneurial opportunities: who needs them? *Academy of Management Perspectives* 34(3), 366-377.
- + Epure, M., Guasch, M. 2020. Debt Signaling and Outside Investors in Early Stage Firms. *Journal of Business Venturing* 35(2), 105929.
- + Chemmanur, T. J., Loutskina, E., Tian, X. 2014. Corporate Venture Capital, Value Creation, and Innovation. *Review of Financial Studies* 27(8), 2434-2473.

12. Firms and society (Complementary)

- * Friedman, M. 1970. The Social Responsibility of Business Is to Increase Its Profits. *New York Times Magazine* 13 September.
- * Arrow, J. K. 1973. Social Responsibility and Economic Efficiency. *Public Policy* 21, 303-317.
- * Hart, O., Zingales, L. 2017. Companies Should Maximize Shareholder Welfare Not Market Value. *Journal of Law, Finance, and Accounting* 2(2), 247-275.
- + Eccles, R. G., Ioannou, I., Serafeim, G. 2014. The Impact of Corporate Sustainability on Organizational Processes and Performance. *Management Science* 60(11), 2835-2857.

- + Lins, K. V., Servaes, H., Tamayo, A. 2017. Social Capital, Trust, and Firm Performance: The Value of Corporate Social Responsibility during the Financial Crisis. *Journal of Finance* 72(4), 1785–1824.
- + Lys, T., Naughton, J., Wang, C. 2015. Signaling Through Corporate Accountability Reporting. *Journal of Accounting and Economics* 60(1), 56–72.

General reference books

- Brickley, J. A., Smith, Jr. C.W., Zimmerman J. L. 2016. *Managerial Economics and Organizational Architecture*, 6th ed. McGraw-Hill, New York.
- Williamson, O. E. 1985. *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. The Free Press, New York.

• Teaching methodology

The course is made of eleven topics taught by two professors. Each topic includes background readings and applications. Most of these papers should be read *carefully* before each session of the topic for which they are assigned.

You will choose one of two types of assignments:

1. Draft **a short paper** (of not more than fifteen pages, including references and appendix) on how some assigned readings relate to your thesis; the paper should include a three hundred words abstract. Introduce your research focus and explain how you can use some of the theoretical frameworks and analyses found in the readings for your current or future work. If you are researching on a topic related to this course, this should be your preferred option.
2. **For two topics per professor**, you will author a **four-page report on two preferred papers**. The commentaries should highlight: (1) the central ideas, and (2) the pros and cons you see in the analyzed papers. These commentaries will be shared with the professor by 23:00 the day before the corresponding session and should not simply summarize the papers. Instead, they should reflect *critical thinking* and *analysis* of the papers being discussed.

The sessions will be run in mix-method lecturing and seminar format: professors and students will take turns in leading the discussion of the assigned papers. The professor will make sure the discussion covers the important themes for the session. Class participation is welcome and expected.

• Assessment

Your grade for the course will be made of two components:

- 60%: average of the assignments
- 40%: active participation in the sessions. Make sure to use a name tag in all sessions.

3. Institutions and Organizations community

This course follows the interdisciplinary approach of the Society for Organizational and Institutional Economics (SIOE; formerly, International Society for New Institutional Economics, ISNIE). The Society was promoted by R.H. Coase, D.C. North and O.E. Williamson, aiming “to explain what institutions are, how they arise, what purposes they serve, how they change and how—if at all—they should be reformed”.

Students are strongly encouraged to follow and enroll in

- SIOE activities, such as its annual conference and blog discussions (<https://sioe.org>);
- the spring school organized by Institutional and Organizational Economics Academy (in Corsica, France; <https://www.ioea.eu>).