

PhD Course in Organizational Economics

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Winter Quarter: Wednesday, 4:00-6:50 pm

Room: UCLA Anderson, C-303

Webpage: <https://ccle.ucla.edu/course/view/11W-MGMT298A-1>

Overview

This is primarily a second year PhD course in organizational economics. It contains a mixture of foundational theories and applications to fields such as labor economics, industrial organization, corporate finance, political economy and international trade as well as empirical and experimental studies.

The prerequisite for this course is a commensurate basic understanding of choice under uncertainty, adverse selection and moral hazard. The requirements for the course are three problem sets and a final presentation.

The structure of the course follows below. The reading list is very long. It is intended to be on the comprehensive side. I will indicate required readings as starred when we move through the course. We will cover papers in Sections 1-5 and occasionally also draw on papers in other sections.

Structure

PART I: FOUNDATIONS

1. Agency Theory for Organizational Economics
 - 1.1 Formal Incentive Contracts
 - 1.2 Relational Incentive Contracts
 - 1.3 No Incentive Contracts (“Career Concerns”)
2. Elemental Theories (and Empirics) of the Firm
 - 2.1 Incentive Systems
 - 2.2 Adaptation
 - 2.3 Property Rights
 - 2.4 Hold-up and Contractual Incompleteness
3. Delegation and Communication
 - 3.1 Delegation
 - 3.2 Disclosure
 - 3.3 Communication

PART II: WITHIN FIRMS

4. Decision-Making in Organizations
 - 4.1 Team Theory
 - 4.2 Authority and Power
 - 4.2.1 Allocation of Authority
 - 4.2.2 Implementing Authority
 - 4.3 Politics and Influence
 - 4.3.1 Committees
 - 4.4 Social Relations
 - 4.4.1 Peer Effects
 - 4.5 Culture and Language
 - 4.6 Leadership
5. Employment in Organizations
 - 5.1 Pay for Performance
 - 5.1.1 Basic Theory and Evidence

- 5.1.2 Gaming
- 5.1.3 CEO Pay
- 5.1.4 Tournaments
- 5.1.5 Subjectivity
- 5.1.6 Career Concerns
- 5.1.7 The Ratchet Effect
- 5.1.8 Intrinsic Motivation and Reciprocity
- 5.2 Job Assignments & Job Design
- 5.3 Skill Development
- 5.4 Employment Systems
- 5.5 Careers in Organizations
- 6. Structures and Processes in Organizations
 - 6.1 Models of Hierarchy
 - 6.1.1 Information Processing
 - 6.1.2 Resource Allocation
 - 6.1.3 Monitoring
 - 6.1.4 Problem Solving
 - 6.1.5 Decision Rights
 - 6.2 Delegation
 - 6.3 Organizational Design
 - 6.4 Growth and Change

PART III: BETWEEN FIRMS

- 7. The Boundary of the Firm Revisited
 - 7.1 Vertical Integration: Classic Evidence and Commentary
 - 7.2 Vertical Integration: Recent Theory and Evidence
 - 7.3 Formal Contracts Between Firms
 - 7.3.1 Franchising
 - 7.4 Relational Contracts Between Firms
 - 7.5 Organizations and Industry Structure
- 8. Corporate Strategy
 - 8.1 Divisionalization and Conglomerates
 - 8.2 Beyond Divisionalization: Matrix, Network, and Other Organizational Forms
 - 8.3 Resource Allocation and Transfer Pricing
 - 8.4 Joint Ventures, Alliances, and Other Hybrids
 - 8.4.1 Hybrids and Innovation
 - 8.5 Multinational Corporations, International Trade, and FDI
 - 8.6 Organizations and Industry Dynamics

PART IV: BEYOND FIRMS

- 9. Institutions
 - 9.1 Communities
 - 9.2 Agencies

1. AGENCY THEORY FOR ORGANIZATIONAL ECONOMICS

Overviews

*Bolton, Patrick and Mathias Dewatripont. 2005. *Contract Theory*. Cambridge, MA: MIT Press. Chapters 4, 8, and 10.

*Gibbons, Robert. 2005. "Incentives Between Firms (and Within)." *Management Science* 51: 2-17 (Sections 1-4).

Gibbons, Robert and John Roberts. 2010. "Incentives in Organizations." Forthcoming in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.

1.1 Formal Incentive Contracts

1.1.1 Risk Aversion

Mirrlees, James. 1975. "The Theory of Moral Hazard and Unobservable Behaviour: Part I." Unpublished manuscript, Oxford University. Published in *Review of Economic Studies* 66 (1999): 3-21.

Holmstrom, Bengt. 1979. "Moral Hazard and Observability," *Bell Journal of Economics*, 10: 74-91.

Grossman, Sanford and Oliver Hart. 1983. "An Analysis of the Principal-Agent Problem," *Econometrica* 51: 7-45.

1.1.2 Multi-task Models

Holmstrom, Bengt and Paul Milgrom. 1991. "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design." *Journal of Law, Economics and Organization* 7: 24-52.

*Baker, George. 1992. "Incentive Contracts and Performance Measurement." *Journal of Political Economy* 100: 598-614.

Feltham, Gerald and Jim Xie. 1994. "Performance Measure Congruity and Diversity in Multi-Task Principal/Agent Relations." *The Accounting Review* 69: 429-53.

Baker, George. 2002. "Distortion and Risk in Optimal Incentive Contracts." *Journal of Human Resources* 37: 728-751.

1.1.3 Multi-agent Models

Holmstrom, Bengt.. 1982. "Moral Hazard in Teams." *Bell Journal of Economics* 13: 324-340.

Lazear, Edward and Shewin Rosen. 1981. "Rank-Order Tournaments as Optimal Labor Contracts." *Journal of Political Economy* 89: 841-64.

Mookherjee, Dilip. 1984. "Optimal Incentive Schemes with Many Agents." *Review of Economic Studies* 51: 433-46.

Itoh, Hideshi. 1991. "Incentives to Help in Multi-Agent Situations." *Econometrica* 59: 611-36.

1.2 Relational Incentive Contracts

Bull, Clive. 1987. "The Existence of Self-Enforcing Implicit Contracts," *Quarterly Journal of Economics* 102: 147-59.

MacLeod, Bentley and James Malcomson. 1989. "Implicit Contracts, Incentive Compatibility, and Involuntary Unemployment." *Econometrica* 57: 447-80.

*Levin, Jonathan. 2003. "Relational Incentive Contracts." *American Economic Review* 93: 835-57.

Fuchs, William. 2007. "Contracting with Repeated Moral Hazard and Private Evaluations." *American Economic Review* 97: 1432-48.

*MacLeod, Bentley. 2007. "Reputations, Relationships, and Contract Enforcement." *Journal of Economic Literature* 45: 595-628.

1.3 No Incentive Contracts ("Career Concerns")

Holmstrom, Bengt. 1982. "Managerial Incentive Problems—A Dynamic Perspective." In *Essays in Economics and Management in Honor of Lars Wahlbeck*. Helsinki: Swedish School of Economics. Republished in *Review of Economic Studies* 66 (1999): 169-82.

Meyer, Margaret and John Vickers. 1997. "Performance Comparisons and Dynamic Incentives." *Journal of Political Economy* 105: 547-581.

Dewatripont, Mathias, Ian Jewitt and Jean Tirole. 1999. "The Economics of Career Concerns, Part I: Comparing Information Structures." *The Review of Economic Studies* 66: 183-98.

Dewatripont, Mathias, Ian Jewitt and Jean Tirole. 1999. "The Economics of Career Concerns, Part II: Application to Missions and Accountability of Government Agencies." *The Review of Economic Studies* 66: 199-217.

2. ELEMENTAL THEORIES (AND EMPIRICS) OF THE FIRM

Overviews and Classics

*Bolton, Patrick and Mathias Dewatripont. 2005. *Contract Theory*. Cambridge, MA: MIT Press, Chapters 11 and 12.

*Gibbons, Robert. 2005. "Four Formal(izable) Theories of the Firm?" *Journal of Economic Behavior and Organization* 58: 202-247 (Sections 1-3).

Segal, Ilya and Michael Whinston. 2010. "Property Rights." Forthcoming in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.

Tadelis, Steven and Oliver Williamson. 2010. "Transaction Cost Economics." Forthcoming in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.

Coase, Ronald. 1937. "The Nature of the Firm." *Economica*, 4: 386-405.

Williamson, Oliver 1971. "The Vertical Integration of Production: Market Failure Considerations." *American Economic Review*, 61: 112-23.

Alchian, Armen and Harold Demsetz. 1972. "Production, Information Costs, and Economic Organization." *American Economic Review*, 62: 316-25.

2.1 Incentive Systems

Holmstrom, Bengt and Paul Milgrom. 1994. "The Firm as an Incentive System." *American Economic Review* 84: 972-91.

Holmstrom, Bengt and John Roberts. 1998. "The Boundaries of the Firm Revisited." *Journal of Economic Perspectives* 12: 73-94.

Holmstrom, Bengt. 1999. "The Firm as a Subeconomy." *Journal of Law Economics and Organizations* 15: 74-102.

*Azoulay, Pierre. 2004. "Capturing Knowledge Within and Across Firm Boundaries: Evidence from Clinical Development." *American Economic Review* 94: 1591-1612.

2.2 Adaptation

Simon, Herbert. 1951. "A Formal Theory of the Employment Relationship." *Econometrica* 19: 293-305.

Williamson, Oliver 1975. *Markets and Hierarchies: Analysis and Antitrust Implications*. New York, NY: Free Press, Chapters 4 and 5.

Williamson, Oliver. 1991. "Comparative Economic Organization: The Analysis of Discrete Structural Alternatives." *Administrative Science Quarterly* 36: 269-96.

*Januszewski Forbes, Silke and Mara Lederman. 2009. "Adaptation and Vertical Integration in the Airline Industry." *American Economic Review*, 99: 5, 1831-1849.

2.3 Property Rights

Grossman, Sanford and Oliver Hart. 1986. "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration." *Journal of Political Economy*, 94: 2, 691-719.

Hart, Oliver and John Moore. 1990. "Property Rights and the Nature of the Firm." *Journal of Political Economy* 98: 1119-58.

Hart, Oliver. 1995. *Firms, Contracts, and Financial Structure*, Oxford: Clarendon Press, Chapter 2.

*Woodruff, Christopher. 2002. "Non-contractible Investment and Vertical Integration in the Mexican Footwear Industry." *International Journal of Industrial Organization* 20: 1197-1224.

*Baker, George and Thomas Hubbard. 2003. "Make Versus Buy in Trucking: Asset Ownership, Job Design, and Information." *American Economic Review* 93: 551-572.

2.4 Hold-up and Contractual Incompleteness

*Joskow, Paul. 1987. "Contract Duration and Relationship-Specific Investment: Empirical Evidence from Coal Markets." *American Economic Review*, 77:168-85.

Hart, Oliver D. and John Moore. 1988. "Incomplete Contracts and Renegotiation." *Econometrica*, 56: 755-785.

Aghion, Philippe, Mathias Dewatripont, and Patrick Rey. 1994. "Renegotiation Design With Unverifiable Information." *Econometrica*, 62: 257-282.

Nöldeke, Georg and Klaus Schmidt. 1995. "Option Contracts and Renegotiation: A Solution to the Hold-Up Problem." *RAND Journal of Economics*, 26(2): 163-179.

- Edlin, Aaron S. and Stefan Reichelstein. 1996. "Holdups, Standard Breach Remedies, and Optimal Investment." *American Economic Review*, 86: 478-501.
- Maskin, Eric and John Moore. 1999. "Implementation and Renegotiation." *Review of Economic Studies*, 66: 39-56.
- Maskin, Eric and Jean Tirole. 1999. "Unforeseen Contingencies and Incomplete Contracts." *Review of Economic Studies*, 66: 83-114.
- Maskin, Eric and Jean Tirole. 1999. "Two Remarks on the Property-Rights Literature." *Review of Economic Studies*, 66: 139-149.
- Che, Yeon-Koo and Donald B. Hausch. 1999. "Cooperative Investments and the Value of Contracting." *American Economic Review*, 89: 125-147.
- Hart, Oliver D. and John Moore. 1999. "Foundations of Incomplete Contracts." *Review of Economic Studies*, 66: 115-138.
- Segal, Ilya. 1999. "Complexity and Renegotiation: A Foundation for Incomplete Contracts." *Review of Economic Studies*, 66: 57-82.

3. DELEGATION AND COMMUNICATION

3.1 Delegation

- *Bolton, Patrick and Mathias Dewatripont. 2005. *Contract Theory*. Cambridge, MA: MIT Press, Chapter 12.
- *Aghion, Philippe and Jean Tirole. 1997. "Formal and Real Authority in Organizations." *Journal of Political Economy* 105:1-29.
- Baker, George, Robert Gibbons, and Kevin J. Murphy. 1999. "Informal Authority in Organizations." *Journal of Law, Economics, and Organization* 15: 56-73.
- Alonso, Ricardo and Niko Matouschek. 2007. "Relational Delegation." *Rand Journal of Economics* 38: 1070-89.
- *Acemoglu, Daron, Philippe Aghion, Claire Lelarge, John Van Reenen, and Fabrizio Zilibotti. 2007. "Technology, Information and the Decentralization of the Firm." *Quarterly Journal of Economics* 122: 1758-99.
- Bloom, Nicholas, Raffaella Sadun, and John Van Reenen. 2009. "The Organization of Firms Across Countries." Unpublished manuscript, Stanford University.

3.2 Disclosure

- *Milgrom, Paul. 2008. "What the Seller Won't Tell You: Disclosure Policies and Market Outcomes." *Journal of Economic Perspectives*, 22 (2): 115-131.
- Milgrom, Paul. 1981. "Good News and Bad News: Representation Theorems and Applications." *Bell Journal of Economics*, 12: 350-391.
- Dye, Ronald A. 1985. "Disclosure of Nonproprietary Information." *Journal of Accounting Research*, 23 (1): 123-145.

*Che, Yeon-Koo and Navin Kartik. 2009. "Opinions as Incentives." *Journal of Political Economy*, October 2009.

*Shin, Hyun Song 2003. "Disclosures and Asset Returns," *Econometrica*, 71 (1): 105-133.

3.3 Communication

*Crawford, Vincent and Joel Sobel. 1982. "Strategic Information Transmission," *Econometrica*, 50 (6): 1431-1451.

*Dessein, Wouter. 2002. "Authority and Communication in Organizations." *Review of Economic Studies* 69: 811-38.

Alonso, Ricardo, Wouter Dessein, and Niko Matouschek. 2008. "When Does Coordination Require Centralization?" *American Economic Review* 98: 145-79.

Rantakari, Heikki. 2008. "Governing Adaptation." *Review of Economic Studies* 75: 1257-85.

4. DECISION-MAKING IN ORGANIZATIONS

Overviews and Classics

*Gibbons, Robert. 2003. "Team Theory, Garbage Cans, and Real Organizations: Some History and Prospects of Economic Research on Decision-Making in Organizations." *Industrial and Corporate Change* 12: 753-87.

Bolton, Patrick and Mathias Dewatripont. 2010. "Authority in Organizations." Forthcoming in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.

Camerer, Colin and Roberto Weber. 2010. "Experimental Organizational Economics." Forthcoming in R. Gibbons and J. Roberts (eds.), *Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press. (Sections V and VI)

Hermalin, Benjamin. 2010. "Leadership and Corporate Culture." Forthcoming in R. Gibbons and J. Roberts (eds.), *Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.

4.1 Team Theory

Marschak, Jacob and Roy Radner. 1972. *Economic Theory of Teams*. New Haven, CT: Yale University Press.

Radner, Roy. 1972. "Teams" in C.B McGwire and R. Radner (eds) *Decision Making and Organization*.

Sah, Raj and Joseph Stiglitz. 1986. "The Architecture of Economic Systems: Hierarchies and Polyarchies." *American Economic Review* 76:716-27.

4.2 Authority and Power

4.2.1 Allocation of Authority

Rotemberg, Julio. 1993. "Power in Profit-Maximizing Organizations." *Journal of Economics & Management Strategy* 2:165-98.

Rajan, Raghuram and Luigi Zingales. 1998. "Power in a Theory of the Firm." *Quarterly Journal of Economics* 113: 387-432.

Van den Steen, Eric. 2009. "Disagreement and the Allocation of Control." Forthcoming, *Journal of Law, Economics, and Organization*.

4.2.2 Implementation of Authority

Aghion, Philippe and Jean Tirole. 1997. "Formal and Real Authority in Organizations." *Journal of Political Economy* 105:1-29.

Baker, George, Robert Gibbons, and Kevin J. Murphy. 1999. "Informal Authority in Organizations." *Journal of Law, Economics, and Organization* 15: 56-73.

Landier, Augustin, David Sraer, and David Thesmar. 2009. "Optimal Dissent in Organizations." *Review Economic Studies* 76: 761-94.

Marino, Anthony, John Matsusaka, and Ján Zábajnik. 2009. "Disobedience and Authority." *Journal of Law, Economics, and Organization* xx: yy-zz.

Van den Steen, Eric. 2009. "Interpersonal Authority in a Theory of the Firm." Forthcoming, *American Economic Review*.

4.3 Politics and Influence

March, James. 1962. "The Business Firm as a Political Coalition." *Journal of Politics* 24: 662-78.

Skaperdas, Stergios. 1992. "Cooperation, Conflict, and Power in the Absence of Property Rights." *American Economic Review* 82: 720-39.

*Prendergast, Canice. 1993. "A Theory of 'Yes Men.'" *American Economic Review* 83: 757-70.

Rajan, Raghuram and Luigi Zingales. 2000. "The Tyranny of Inequality." *Journal of Public Economics* 76: 521-58.

Rotemberg, Julio and Garth Saloner. 1995. "Overt interfunctional conflict (and its reduction through business strategy)." *Rand Journal of Economics* 26: 630-53.

Milgrom, Paul and John Roberts. 1988. "An Economic Approach to Influence Activities in Organizations." *American Journal of Sociology* 94: S154-S179.

*Dessein, Wouter. 2002. "Authority and Communication in Organizations." *Review of Economic Studies* 69: 811-38.

Mitusch, Kay and Roland Strausz. 2005. "Mediation in Situations of Conflict and Limited Commitment." *Journal of Law, Economics, and Organization* 21: 467-500.

Dewatripont, Mathias and Jean Tirole. 2005. "Modes of Communication." *Journal of Political Economy* 113: 1217-38.

Friebel, Guido and Michael Raith. 2004. "Abuse of Authority and Hierarchical Communication." *Rand Journal of Economics* 35: 224-44.

4.3.1 Committees

Sah, Raj and Joseph Stiglitz. 1988. "Committees, Hierarchies, and Polyarchies." *Economic Journal* 98: 2817-38.

- Feddersen, Timothy, and Wolfgang Pesendorfer. 1998. "Convicting the Innocent: The Inferiority of Unanimous Jury Verdicts under Strategic Voting." *American Political Science Review* 92: 23-35.
- Li, Hao, Sherwin Rosen, and Wing Suen. 2001. "Conflict and Common Interests in Committees." *American Economic Review* 91: 1478-97.
- Persico, Nicola. 2004. "Committee Design with Endogenous Information." *Review of Economic Studies* 71: 165-91.
- Casella, Alessandra. 2005. "Storable votes." *Games and Economic Behavior* 51: 391-419.
- Levy, Gilat. 2007. "Decision Making in Committees: Transparency, Reputation, and Voting Rules." *American Economic Review* 97: 150-68.
- *Visser, Bauke and Otto Swank. 2007. "On Committees of Experts." *Quarterly Journal of Economics* 122: 337-72.
- Wernerfelt, Birger. 2007. "Delegation, Committees, and Managers." *Journal of Economics and Management Strategy* 16: 35-51.
- Dessein, Wouter. 2007. "Why a Group Needs a Leader: Decision-making and Debate in Committees." Unpublished manuscript, University of Chicago.

4.4 Social Relations

- *Bandiera, Oriana, Iwan Barankay, and Imran Rasul. 2006. "The Evolution of Cooperative Norms: Evidence from a Natural Field Experiment." *Advances in Economic Analysis & Policy* 6: Issue 2, Article 4.
- Tirole, Jean. 1986. "Hierarchies and Bureaucracies: On the Role of Collusion in Organizations." *Journal of Law, Economics, and Organization* 2:181-214.
- *Battaglini, Marco, Roland Bénabou, and Jean Tirole. 2005. "Self-control in peer groups." *Journal of Economic Theory* 123: 105-34.
- *Charness, Gary, Luca Rigotti, and Aldo Rustichini. 2007. "Individual Behavior and Group Membership." *American Economic Review* 97: 1340-52.
- Prendergast, Canice and Robert Topel. 1996. "Favoritism in Organizations." *Journal of Political Economy* 104:958-78.
- Garicano, Luis, Ignacio Palacios, and Canice Prendergast. 2005. "Favoritism Under Social Pressure." *Review of Economics and Statistics* 87: 208-16.
- Kandel, Eugene and Edward Lazear. 1992. "Peer Pressure and Partnership." *Journal of Political Economy* 100: 801-17.
- Barron, John and Kathy Paulson Gjerde. 1997. "Peer Pressure in an Agency Relationship." *Journal of Labor Economics* 15: 234-54.

4.4.1 Peer Effects

- *Ichino, Andrea and Giovanni Maggi. 2000. "Work Environment and Individual Background: Explaining Regional Shirking Differentials in a Large Italian Firm." *Quarterly Journal of Economics* 115: 1057-90.

*Falk, Armin and Andrea Ichino. 2005. "Clean Evidence on Peer Effects." *Journal of Labor Economics* 24: 39-57.

*Mas, Alex and Enrico Moretti. 2007. "Peers at Work." *American Economic Review* 99: 112-45.

Mohnen, Alwine, Kathrin Pokorny, and Dirk Sliwka. 2008. "Transparency, Inequity Aversion, and the Dynamics of Peer Pressure in Teams: Theory and Evidence." *Journal of Labor Economics* 26: 693-720.

Kato, Takao and Pian Shu. 2007. "Performance Spillovers and Social Network in the Workplace: Evidence from Rural and Urban Weaves in a Chinese Textile Firm." Unpublished manuscript, Colgate University.

Guryan, Jonathan, Kory Kroft, and Matt Notowidigdo. 2009. "Peer Effects in the Workplace: Evidence from Random Groupings in Professional Golf Tournaments." *American Economic Journal: Applied Economics*, 1(4), 34-68.

4.5 Culture and Language

Kreps, David. 1990. "Corporate Culture and Economic Theory." In J. Alt and K. Shepsle, eds. *Perspectives on Positive Political Economy*. Cambridge University Press.

Crémer, Jacques. 1993. "Corporate Culture and Shared Knowledge." *Industrial and Corporate Change* 2:351-86.

*Rob, Rafael, and Peter Zemsky. 2002. "Social Capital, Corporate Culture, and Incentive Intensity." *Rand Journal of Economics* 33: 243-57

*Carlin, Bruce and Simon Gervais. 2009: "Work Ethic, Employment Contracts, and Firm Value." *Journal of Finance* 64:2, 785-821

Carrillo, Juan and Denis Gromb. 2006. "Cultural Inertia and Uniformity in Organizations." *Journal of Law, Economics, and Organization* 23: 743-71.

Weber, Roberto. 2006. "Managing growth to achieve efficient coordination in large groups." *American Economic Review* 96:1, 114-126.

*Weber, Roberto and Colin Camerer. 2003. "Cultural Conflict and Merger Failure: An Experimental Approach." *Management Science* 49: 400-15.

*Cremer, Jacques, Luis Garicano, Andrea Prat. 2007. "Language and the Theory of the Firm." *Quarterly Journal of Economics* 122: 373-407.

Selten, Reinhard and Massimo Warglien. 2007. "The emergence of simple languages in an experimental coordination game." *Proceedings of the National Academy of Sciences* 104: 7361-66

Colin Camerer and Roberto Weber. 2008. "Growing organizational culture in the laboratory." In *Handbook of Experimental Economics Results*, eds. Charles R. Plott and Vernon L. Smith. Amsterdam, The Netherlands: Elsevier.

Bénabou, Roland. 2008. "Groupthink: Collective Delusions in Organizations and Markets." Unpublished manuscript, Princeton University.

Van den Steen, Eric. 2009. "Culture Clash: The Costs and Benefits of Homogeneity." Unpublished manuscript, HBS.

4.6 Leadership

- Rotemberg, Julio and Garth Saloner. 1993. "Leadership Style and Incentives." *Management Science* 39: 1299-1318.
- *Hermalin, Benjamin. 1998. "Toward an Economic Theory of Leadership: Leading By Example." *American Economic Review* 88: 1188-1206.
- Weber, R. Rottenstreich, Y., Camerer, C. and Knez, M. 2001. "The Illusion of Leadership: Misattribution of Cause in Coordination Games." *Organizational Science* 12:582-98.
- *Bertrand, Marianne and Antoinette Schoar. 2003. "Managing with Style: The Effect of Managers on Firm Policies." *Quarterly Journal of Economics* 118: 1169-1208.
- *Van den Steen, Eric. 2005. "Organizational Beliefs and Managerial Vision." *Journal of Law, Economics, and Organization* 21: 256-83.
- Caillaud, Bernard and Jean Tirole. 2007. "Consensus Building: How to Persuade a Group." *American Economic Review* 97: 1877-1900.
- Brocas, Isabelle and Juan Carrillo. 2007. "Influence through ignorance." *Rand Journal of Economics* 38: 931-47.
- Dewan, Torun and David Myatt. 2008. "The Qualities of Leadership: Direction, Communication, and Obfuscation." *American Political Science Review* 102: 351-68.

5. EMPLOYMENT IN ORGANIZATIONS

Overviews

- Gibbons, Robert and Michael Waldman. 1999. "Careers in Organizations: Theory and Evidence." Chapter 36 in Volume 3B of O. Ashenfelter and D. Card (eds.), *Handbook of Labor Economics*, North Holland.
- Baron, James and David Kreps. 2010. "Employment as an Economic **and** a Social Relationship." Forthcoming in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.
- Ichniowski, Casey and Kathryn Shaw. 2010. "Insider Econometrics: A Roadmap to Estimating Empirical Models of Organizational Performance." Forthcoming in R. Gibbons and J. Roberts (eds.), *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.
- Lazear, Edward and Paul Oyer. 2010. "Personnel Economics." Forthcoming in R. Gibbons and J. Roberts (eds.), *Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.
- Waldman, Michael. 2010. "Theory and Evidence on Internal Labor Markets." Forthcoming in R. Gibbons and J. Roberts (eds.), *Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press.

5.1 Pay for Performance

5.1.1 Basic Theory and Evidence

- Lazear, Edward. 2000. "Performance Pay and Productivity." *American Economic Review* 90: 1346-61.
- Ferrall, Christopher and Bruce Shearer. 1999. "Incentives and Transactions Costs Within the Firm: Estimating an Agency Model Using Payroll Records." *Review of Economic Studies* 66: 309-38.

- Shearer, Bruce. 2004. "Piece Rates, Fixed Wages and Incentives: Evidence from a Field Experiment." *Review of Economic Studies* 71: 513-34.
- Knez, Marc and Duncan Simester. 2001. "Firm-Wide Incentives and Mutual Monitoring at Continental Airlines." *Journal of Labor Economics* 19: 743-72.
- Hamilton, Barton, Jack Nickerson, and Hideo Owan. 2003. "Team Incentives and Worker Heterogeneity: An Empirical Analysis of the Impact of Teams on Productivity and Participation." *Journal of Political Economy* 111: 465-97.
- Bandiera, Oriana, Iwan Barankay, and Imran Rasul. 2007. "Incentives for Managers and Inequality Among Workers: Evidence from a Firm Level Experiment." *Quarterly Journal of Economics* 122: 729-73.
- Boning, Brent, Casey Ichniowski, and Kathryn Shaw. 2007. "Opportunity Counts: Teams and the Effectiveness of Production Incentives." *Journal of Labor Economics* 25: 613-50.
- Alston, Lee, and Robert Higgs. 1982. "Contractual Mix in Southern Agriculture since the Civil War: Facts, Hypotheses, and Test." *Journal of Economic History* 42:327-53.

5.1.2 Gaming

- Kerr, Steven. 1975. "On the Folly of Rewarding A, While Hoping for B." *Academy of Management Journal* 18:769-83.
- Healy, Paul. 1985. "The Effect of Bonus Schemes on Accounting Decisions," *Journal of Accounting and Economics* 7: 85-107.
- Anderson, Kathryn, Richard Burkhauser, and Jennie Raymond. 1993. "The Effect of Creaming on Placement Rates under the Job Training Partnership Act." *Industrial and Labor Relations Review* 46: 613-24.
- Cragg, Michael. 1997. "Performance Incentives in the Public Sector: Evidence from the Job Training Partnership Act." *Journal of Law, Economics, and Organization* 13: 147-68.
- Brown, Keith, W. Harlow, and Laura Starks. 1996. "Of Tournaments and Temptations: An Analysis of Managerial Incentives in the Mutual Fund Industry." *Journal of Finance* 51:85-110.
- Chevalier, Judith and Glen Ellison. 1997. "Risk Taking by Mutual Funds as a Response to Incentives." *Journal of Political Economy* 105:1167-1200.
- Oyer, Paul. 1998. "Fiscal Year Ends and Nonlinear Incentive Contracts: The Effect on Business Seasonality." *Quarterly Journal of Economics* 113:149-85.
- Dranove, David, Daniel Kessler, Mark McClellan, and Mark Satterthwaite. 2003. "Is More Information Better? The Effects of 'Report Cards' on Health Care Providers." *Journal of Political Economy* 111: 555-88.
- Courty, Pascal, and Gerald Marschke. 2004. "An Empirical Investigation of Gaming Responses to Explicit Performance Incentives." *Journal of Labor Economics* 22: 23-56.
- Larkin, Ian. 2007. "The Cost of High-Powered Incentives: Employee Gaming in Enterprise Software Sales." Unpublished manuscript, Harvard Business School.

5.1.3 CEO Pay

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