

EC951 Economics of Organizational Management: Introduction (2011-2012)

[Class: please think of a funny cartoon now that seems vaguely relevant to the course]

- Dr. David Reinstein, drein@essex.ac.uk, (01206) 87 3518

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- I'm in the basement (3.204)
- Office hours: Thursday 2:30-3:30, Friday 12:30-1:30

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- Maths: Largely algebraic, some calculus, optimization, and “intuitional” and semi-formal proofs

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- **Warning:** The notes may (will) contain errors; please let me know if you spot any and I will send an email correction to all students. The textbook(s) will contain fewer errors.

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Fact

This course may give you some insight into such things

- ...*(But don't put a downpayment on that yacht just yet)*

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 - ▶ Non-material concerns (psychological, behavioural, altruistic)

An Overview (From Salanie, Laffont and Martimort, etc.)

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 - ▶ Can only ‘recover’ welfare theorems under complicated mechanisms and strong assumptions!
 - ▶ 2nd welfare theorem only applies if the government can make frictionless lump-sum transfers – there are many reasons why this is infeasible, even if the government knew people’s endowments and preferences

And why do firms exist?

Problem

If the price mechanism works, why do we have all these institutions that 'supercede it'?

Coase (1937): “The distinguishing mark of the firm is the supression of the price mechanism”

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As policymakers and managers, we are interested in these problems themselves and how to improve things.

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- We assume principal sets the contract; we abstract away from bargaining issues.

Classes of Models

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⇒ “Moral Hazard” / Hidden action problem

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- ④ Also, ‘**Incomplete Contracting**’

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