The purpose of this course is to introduce students to the economic analysis of organizations. We develop an understanding of when markets can solve the problems of coordinating activities and motivating individuals; and, when markets are less successful, how business organizations and special contractual relationships emerge as alternative institutions for allocating resources.

**Prerequisites:** ECO 200/206; ECO 220/227 (or STA equivalent)

**Lecture Topics and Reading Assignments**

The articles and books listed below are available as a package, and can be purchased from Scholar House Productions, 100 Harbord Street. Students are responsible for the material described in square brackets following each reading (some changes may be made during the course). Questions based on each reading are available (using Internet Explorer) at [http://www.economics.utoronto.ca/hosios/](http://www.economics.utoronto.ca/hosios/); a subset of these questions will reappear on term tests and the final examination. Additional questions may be provided. **Answers to these questions are not publicly available; the instructor will, however, review answers prepared by students.**


1. **Introduction and Definitions**


MR (2) "Economic Organization and Efficiency" [19-28, 35-38]

2. Transaction Cost Economics

BDS (4) "The Transactions Costs of Market Exchange" [141-166]
BDS (5) "Organizing Vertical Boundaries" [169-177]

3. TCE: Applications


4. Property Rights Theory

BDS (5) "Organizing Vertical Boundaries" [177-180]

5. PRT vs TCE


6. Reputation and Relational Contracts

7. Incentive Problems: Theory

MR (7) "Risk Sharing and Incentive Contracts" [206-231]

8. Incentive Problems: Applications


9. Allocation of Authority


10. Firm Boundaries, Again

MR (7) "Risk Sharing and Incentive Contracts" [231-232]
Rules of the Game:

Assessment is based on 3 in-class tests and a final examination. The tests and exam each have a duration of 2 hours, are scheduled every 6-7 weeks throughout the course, and cover the material assigned since the previous test.

Test #1 October 18
Test #2 December 6
Test #3 February 14

The 3 in-class term tests count for 75% of the final grade (at 25% per test). An examination worth 25% of the final grade will be held during the spring examination period.

Missed Test: Students who miss a term test will be assigned a mark of zero for that test unless, within 48 hours of the test date, they submit to the instructor a written request for special consideration explaining the reason for missing the test. Appropriate documentation can be provided later; this documentation will either be a medical certificate indicating that the student was too ill to attend class or a college registrar's note.

Students with satisfactory explanations for having missed a test will arrange with the instructor to write a make-up test before the next class.