Instructor I

Visiting Professor Jacques Crémer

URL: http://www.idei.fr/member/jcremer.html

Biography: Jacques Crémer received his PhD from MIT in 1978. He has held appointments at the University of Pennsylvania and the Virginia Polytechnic Institute. Since 1991, he is “Directeur de Recherche au CNRS”, working at the University of Toulouse. From January 2003 to July 2007, he was Director of the Institut d’Economie Industrielle (IDEI). He is a Fellow of the Econometric Society and a member of the Council of the Econometric Society and a member of the Council of the European Economic Association. His current research interests are the economics of organization, the economics of the Internet and of the software industry, contract theory and the political economy of federal systems. In each of these areas, he tries to do relevant economic theory. He has also had extensive experience in antitrust advising, and participates to the public debate in France through a monthly column in the business daily newspaper Les Échos.

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Instructor II

Professor Wing Suen

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Biography: Wing Suen received his undergraduate education at the University of Hong Kong and obtained his Ph.D. from the University of Washington. After doing post-doctoral research at the University of Chicago, he returned to his alma mater in 1989 and is now Henry G. Leong Professor in Economics at the School of Economics and Finance. He has held fellowship or teaching positions at Simon Fraser University, Harvard University, the Chinese University of Hong Kong, and Peking University. His current research interest centers around the transmission of information when people have divergent interests.

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Course Description and Objectives

This course will be divided into two parts. The first part—the first 6 weeks, taught by Prof. Crémer—will provide a general survey of the theory of organizations. The second part—the remaining 6 weeks, taught by Prof. Suen—will cover topics related to information transmission.

A preliminary reading list can be found at the end of this document; a corrected-modified-expanded version might be distributed later. As usual, the reading list contains more papers than you will be able to read, and we have indicated those that you should absolutely read.
Our choice is based both on our assessment of how interesting the readings are, but also on their accessibility. You are of course encouraged to read more.

**Learning Outcomes**

The course is a course of economic theory, oriented toward the needs of Ph.D. students at the University of Hong Kong and to those of M.Econ. and undergraduate students who are either considering pursuing their studies at the Ph.D. level or want to taste advanced theory courses. Although the mathematical prerequisites are not very high (a good understanding of calculus is needed), this is a technical course: a solid economic intuition, the ability and the willingness to work through complicated theoretical arguments, and the willingness to work hard are necessary.

CLO1: students will understand the theories of organizations and economic perspectives on information transmission to a level such that they will be able to read current research literature in the field.

CLO2: develop the ability to read the current literature in economics through the in-class discussion of recent research literature.

### Alignment of Program and Course Learning Outcomes

<table>
<thead>
<tr>
<th>Program Outcomes</th>
<th>Learning Outcomes</th>
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<tbody>
<tr>
<td>master current theory and knowledge in the field of economics</td>
<td>CLO1, CLO2; this is the main focus of the course</td>
</tr>
<tr>
<td>master the skills to deal with economic data</td>
<td>not a major focus of this course</td>
</tr>
<tr>
<td>develop the ability to apply economics to real world problems</td>
<td>CLO1; the reasons for the abstractions used by the theory and the way in which the theory is used will be discussed</td>
</tr>
<tr>
<td>develop global and regional outlook and astuteness</td>
<td>not a major focus of the course</td>
</tr>
<tr>
<td>develop communication skills</td>
<td>CLO2; students are expected to participate actively in class discussions</td>
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### Teaching and Learning Activities

This course will rely on three main activities:

(TLA1) **LECTURES**: during which we will cover economic concepts and models. However, students are expected to participate actively in these lectures by questioning underlying assumptions.

(TLA2) **CLASS DISCUSSION**: a number of recent research papers will be discussed in class. Students will be expected to read these papers thoroughly before class, prepare presentations, and participate actively in the discussion.
Assessment

The final grade in the course will be based 1/3 on the midterm, 1/3 on the final, and 1/3 on your participation in the class discussion.

<table>
<thead>
<tr>
<th>COURSE OUTCOMES</th>
<th>TEACHING AND LEARNING ACTIVITIES</th>
<th>ASSESSMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLO1</td>
<td>TLA1, TLA2</td>
<td>exams, class discussion</td>
</tr>
<tr>
<td>CLO2</td>
<td>TLA1, TLA2</td>
<td>exams, class discussion</td>
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Standards for Assessment

<table>
<thead>
<tr>
<th>GRADE</th>
<th>GRADE DEFINITION</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>A+, A, A-</td>
<td>high distinction</td>
<td>Strong evidence of superb ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate, and synthesis.</td>
</tr>
<tr>
<td>B+, B, B-</td>
<td>distinction</td>
<td>Strong evidence of the ability to fulfill the intended learning outcomes of the course at all levels of learning: describe, apply, evaluate, and synthesis.</td>
</tr>
<tr>
<td>C+, C, C-</td>
<td>credit pass</td>
<td>Evidence of adequate ability to fulfill the intended learning outcomes of the course at low levels of learning such as describe and apply but not at high levels of learning such as evaluate and synthesis.</td>
</tr>
<tr>
<td>D</td>
<td>pass</td>
<td>Evidence of basic familiarity with the subject.</td>
</tr>
<tr>
<td>F</td>
<td>fail</td>
<td>Little evidence of basic familiarity with the subject.</td>
</tr>
</tbody>
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Academic Conduct

The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web: [http://www.hku.hk/plagiarism/](http://www.hku.hk/plagiarism/). Academic dishonesty is behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

a. Plagiarism — The representation of someone else’s ideas as if they are one’s own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one’s own work. Paraphrasing of someone else’s ideas is still
using someone else’s ideas, and must be acknowledged.

b. Unauthorized Collaboration on Out-of-Class Projects — The representation of work as solely one’s own when in fact it is the result of a joint effort.

c. Cheating on In-Class Exams — The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.

d. Unauthorized Advance Access to an Exam — The representation of materials prepared at leisure, as a result of unauthorized advance access (however obtained), as if it were prepared under the rigors of the exam setting. This misrepresentation is dishonest in itself even if there are not compounding factors, such as unauthorized uses of books or notes.

Where a candidate for a degree or other award uses the work of another person or persons without due acknowledgement:

1. The relevant Board of Examiners may impose a penalty in relation to the seriousness of the offence.

2. The relevant Board of Examiners may report the candidate to the Senate, where there is prima facie evidence of an intention to deceive and where sanctions beyond those in (1) might be invoked.

Course Outline

Part I: Theory of Organization (first 6 weeks)
1. coordination, incentives and optimal organization
2. hierarchies
3. corporate culture and the reputation of firms
4. vertical integration and the nature of the firm
5. new information technologies and the organization of the firm
6. other topics

Part II: Information Transmission and Social Learning (last 6 weeks)
7. Bayes’ rule and applications
8. herding and social learning
9. cheap talk and strategic information transmission (two weeks)
10. collective search and experimentation
11. media and politics

The rest of this document contains a reading list for each of the above topics.
1 Coordination, Incentives and Optimal Organization

Prof. Crémer will distribute lecture notes on this part of the course. This section of the course has two aims:

1. to introduce you to some of the basic facts and theories of the organization of firms;
2. to introduce some of the tools used in the theory of organizations.

We will spend a bit more that a session on this.

You should read at least one of the case studies in Chandler (1962) (but the whole book is fun), Crémer (1981), Holmström and Tirole (1991), Weitzman (1974) and Dessein and Santos (2006), on which we will spend quite a bit of time (well maybe not for the Dessein-Santos paper).

We also will study two papers representative of the wave of studies of allocation of rights of controls in organizations: Dewatripont and Tirole (1999) and Aghion and Tirole (1997).


2 Hierarchies

Prof. Crémer will distribute lecture notes on this part of the course.

Radner (1986) provides a nice introduction to the coordination view of hierarchies and Garicano (2000) is a very influential recent paper. Garicano and Rossi-Hansberg (2006) uses its theory to study recent changes in the organization of firms. On this topic, you are strongly encouraged to also read Sah and Stiglitz (1986). It would also be useful to look at Rosen (1982), one of the other classics on the topic.

Calvo and Wellisz (1978) and Calvo and Wellisz (1979) study incentive issues in hierarchies as does Tirole (1986).

Finally, we will look at the modern theory of decentralization and delegation. Two classics are Aghion and Tirole (1997) and Dewatripont and Tirole (1999).


3 Corporate Culture and the Reputation of Firms

Prof. Crémé will distribute lecture notes on this part of the course. Hopefully, we can do this in a bit over one session. Hermalin (2001) provides a survey with a viewpoint different from that of the course. You should also read Crémé (1986), Crémé (1993), Prescott and Visscher (1980) and Kreps (1996) and at least have a look at Tadelis (1999). Because this is Prof. Crémé’s recent work, we will spend some time on Crémé et al. (2007).


4 Vertical Integration and the Nature of the Firm

This is a very difficult and somewhat mysterious part of organization theory! We will try to avoid metaphysical discussions of the “nature of the firm”. Prof. Crémer is planning to distribute lecture notes, but may not succeed — if he fails Crémer (2010) gives a hint of the way he wanted to organize these notes. Those of you who can read French may find Crémer (1995) and Tirole (1995) useful easy introductions to the topic (there should be some incentives for you to learn French!). We will spend three lectures on this.

You should read Coase (1937) (the great classic), Klein et al. (1978) (after you read this article you might enjoy reading Casadesus-Masanell and Spulber (2000), who argue that they have it all wrong — Prof. Crémer is not convinced by their arguments), Joskow (1985) (which shows how the concepts can be used in applied settings), Riordan (1990) and Milgrom and Roberts (1990).


We will also discuss the recent literature on “relational contracts” by examining Baker et al. (2002) and Levin (2003).


5 New Information Technologies and the Organization of the Firm

We will just spend one session or two sessions on this topic, as an introduction. You should read Bresnahan et al. (2002) and one or two other papers/books from the list below; for instance Brynjolfsson and Hitt (2000). Many of you might enjoy David (1990) which draws the analogy with the electricity revolution or Malone and Laubacher (1998) which presents a view of the corporation which dissolves into a mesh of contracts. Brynjolfsson et al. (2000) discuss the effect on an increase in IT investment on the valuation of firms. Alstyne et al. (1995) discuss ownership of databases.

You will find more working papers on the topic on T. Bresnahan’s home page at http://www.stanford.edu/~tbres/research.htm (look under the heading Computerization: Social Returns and the Demand for Labor).

To study evidence about the effects of information technology in specific industries, we will look at the papers of Baker and Hubbard (2003, 2004) and Hubbard (2000, 2003). We will also look at a study of police effectiveness, Garicano and Heaton (2007).

The more general theories of the effect of information technology are based on Crémer et al. (2007) and Garicano and Rossi-Hansberg (2006).


6 Other topics

A few pointers to other topics you might find interesting, and which we will not treat in class.

The relationship between the organization of firms and market pressure is a very important, underresearched topic. If you are interested, begin by Slivak (1987) and continue with Hart (1983) and Fershtman and Judd (1987).

Hirshman (1970) is lots of fun, and provides useful insights.

Finally, Crémer et al. (1996) shows how the insights from the theory of the firm can be applied to the behavior of governments. On the same topic, you might also want to read Tirole (1994)


7 Bayes’ Rule and Applications

The discussion of the monotone likelihood ratio property in Milgrom (1981) has a wide range of applications in information economics. Bayesian learning has some surprising implications for social issues as discussed in Farmer and Terrell (2001) and Lundberg and Startz (1983). Prendagast and Stole (1996), Suen (2004), and Vives (1993) are dynamic models of Bayesian learning in different economic contexts.


8 Herding and Social Learning

Banergee (1992) and Bikchandani et al (1992) are the classic papers on herding. The Chamley (2004) monograph contains an extensive discussion of this line of literature and related models. We will also spend some time in class on the Caplin and Leahy (1998) paper.

Suen (2010) discusses why like-minded people learn from each other.


9 Cheap Talk and Strategic Information Transmission


Milgrom and Roberts (1986) study another class of problem where the evidence, if not deliberately hidden, is verifiable. See also Shin (1998).


10 Collective Search and Experimentation


11 Mass Media and Politics

These papers discuss both the demand side and the supply side of media bias. Prat and Stromberg (2010) provides a useful survey of the state of literature. We will also go into some empirical evidence on the existence (Groseclose and Milyo (2005)), the causes (Gentzkow and Shapiro (2010)), and the effects (DellaVigna and Kaplan (2007)) of media bias.


