

# **Toulouse School of Economics**

## **Master 1 2016-2017**

### **Understanding Real World Organizations**

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First semester, Wednesdays 14.00-15.30

#### **Syllabus**

##### **Objectives**

This course aims to explore the use of simple economic modeling to help understand the way organizations shape economic outcomes. Much of modern life relies on exchange of goods and services, some of which take place through the institution of markets, others through firms and a great variety of non-market institutions. The course is in two parts. The first (weeks 1-6) introduces Ronald Coase's idea of markets and non-market organizations as alternative ways of organizing exchange, and of understanding the relative advantages of each form in terms of transactions costs. It surveys briefly the historical development of markets and non-market institutions and then looks at the specificities of certain types of non-market institutions: first firms and then various other institutions.

The second part of the course (weeks 7-10) takes the form of an informal interactive workshop in which students submit suggestions for using simple economic modeling to understand modern economic phenomena. Examples could include: financial crashes, the response to natural disasters, civil wars and guerrilla insurgencies, philanthropic institutions, environmental degradation, the economics of innovation, healthcare, digital platforms, illegal activity including migration, drugs and prostitution.

The course is suitable for those wanting a) to understand how institutions shape economic interactions (why should a given exchange between two individuals yield a different outcome when mediated by markets rather than by non-market institutions?) or b) to learn to use simple microeconomic modeling techniques (basically applied game theory) to understand real world institutions. It is particularly recommended for those wanting to go on to do theoretically informed empirical research in IO, finance, economic development or the economics of organizations.

## **Course Outline**

The topics covered will be as follows:

### **Part 1: The Coase question: the fluctuating frontiers of market and non-market exchange**

Week 1: Ronald Coase and the nature of the firm.

Week 2: The development of markets throughout history.

Week 3: The development of non-market institutions throughout history.

Week 4: What's special about firms?

Week 5: Non-market institutions I: churches, religions and charities.

Week 6: Non-market institutions II: bandits, armies and insurgent groups.

### **Part II: The Improvisation Workshop**

Weeks 7-10: The theme for each week will be decided by the previous Monday morning.

## **Requirements**

There are no formal requirements for the course, but students are expected to be present and to participate actively in class discussion. The level of mathematics required is no higher than for the core microeconomics and game theory classes. Although this is the first year in which this particular course will be taught, past experience suggests it is extremely unlikely that any student can pass the exam purely by reading the presentation slides – presence in class is essential.

Every student will be required to submit at least one suggestion for the improvisation workshop.

## **Logistics**

Students with questions about the course material are encouraged to ask them during or at the end of class before requesting a meeting with the lecturer. Meetings should be requested by email.

## **Examination:**

The course is examined by a 1 hour written exam. 10% of the marks will be determined by the quality of suggestions submitted for the improvisation workshop.

## Bibliography

There is no textbook for the course but you will be encouraged to read very widely, in politics, history and current affairs as well as in economics.

Here are a few readings to get you started; these are all books that take a “big picture” approach to their respective topics, and contain many other useful references, including specialized ones. Other readings will be suggested as the course proceeds. Within topic the books are listed in alphabetical order:

### 1) The development of markets

Kay, John (2004): *The Truth About Markets*, Penguin.

Kling, Arnold and Nick Shultz (2011): *Invisible Wealth: The Hidden Story of How Markets Work*, Encounter Books.

McMillan, John (2003): *Reinventing the Bazaar: A Natural History of Markets*, Norton.

Seabright, Paul (2010): *The Company of Strangers: A Natural History of Economic Life*, Princeton University Press, 2<sup>nd</sup> edition.

### 2) Non-market organizations and organizational design

Brickley, James, Jerrold Zimmerman and Clifford Smith (2008): *Managerial Economics and Organizational Architecture*, McGraw-Hill.

### 3) The economic approach to human institutions

Harford, Tim (2006): *The Undercover Economist*, Abacus.

Harford, Tim (2011): *Adapt: Why Success Always Starts with Failure*, Little Brown.

### 9) Institutions and Human Development in Historical Perspective

Acemoglu, Daron and James Robinson (2013): *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, Crown Business.

Morris, Ian (2010): *Why the West Rules – For Now*, Farrar, Straus and Giroux

## Websites:

A post on my website will contain updated copies of this syllabus as well as of the slides of the lectures, as well as any other handouts.

The URL is here:

<http://paulseabright.com/?p=544>

News websites:

We shall devote a certain amount of time in class to discussing current economic events, so I shall expect you to be up to date. Good websites where you can obtain economic news are:

[www.economist.com](http://www.economist.com)

[www.ft.com](http://www.ft.com)

[www.guardian.co.uk](http://www.guardian.co.uk)

[www.lemonde.fr](http://www.lemonde.fr)

[www.liberation.fr](http://www.liberation.fr)

[www.nytimes.com](http://www.nytimes.com)

[www.wsj.com](http://www.wsj.com)

In addition you can find high quality discussion of economics issues on a number of blogs (alphabetical order by title):

[Chris Blattman](#)

[The Conscience of a Liberal](#) (Paul Krugman)

[Grasping Reality with Both Invisible Hands](#) (Brad DeLong)

[Greg Mankiw's blog](#)

[Library of Economics and Liberty](#) (Bryan Caplan, Arnold Kling, David Henderson)

[Marginal Revolution](#) (Tyler Cowen and Alex Tabarrok)

[Overcoming Bias](#) (Robin Hanson)

[Vox](#) (Richard Baldwin/CEPR)

**Schedule:**

M1EEE/M1EIE/M1EED/M1ECS/M1EIC 2016/2017 – CM Understanding Real World Organisations Paul SEABRIGHT							
<b>(36)05 septembre 16</b>	Mercredi 07/09/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(37)12 septembre 16</b>	Mercredi 14/09/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(38)19 septembre 16</b>	Mercredi 21/09/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(39)26 septembre 16</b>	Mercredi 28/09/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(40)03 octobre 16</b>	Mercredi 05/10/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(41)10 octobre 16</b>	Mercredi 12/10/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(42)17 octobre 16</b>	Mercredi 19/10/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(46)14 novembre 16</b>	Mercredi 16/11/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(47)21 novembre 16</b>	Mercredi 23/11/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10
<b>(48)28 novembre 16</b>	Mercredi 30/11/2016	01h30	14h00	15h30	Understanding real world organizations	MC202	10