

FIN 6930
Economics of Organizations and Markets: Spring 2017
Professor David T. Brown

Purpose of the Course: An important challenge facing managers is creating and implementing an organizational strategy that makes the firm more effective in meeting the competitive challenges that it faces. The purpose of this course is to provide an analytical paradigm for evaluating organizational strategy. The paradigm we will use comes from microeconomics. Specifically basic principles of managerial economics are used to develop a framework for solving the important organizational and strategic problems that management faces. The first part of the course introduces basic propositions concerning agency problems, knowledge and the assignment of decision rights. These concepts are used to examine the economic factors influencing how firms are organized. The second part of the course deals with how the rules of the game are determined in organizations. The rules of the game pertain to the allocation of decision rights, the assessment of performance and the allocations of rewards. The rules of the game are shown to depend on the firm's strategy and the economic and political environment in which the firm operates.

While a number of topics are introduced in this course, several over-arching themes emerge. Perhaps the most striking is the potential for value creation through the implementation of effective governance and control systems. A second theme that emerges is that the optimal design of an organization involves a careful balancing of the benefits of delegating decision making with the agency costs of delegation. The costs and benefits of delegation in turn depend on the technological and economic environment that the firm operates in and the strategies for value creation. A final theme of the course is that value creating modifications to organizations require changing three aspects of an organization: the allocation of decision rights, the performance evaluation system and the compensation system.

Text: There are sets of readings and cases that can be purchased at Target Copy. Outlines for each lecture will be available on the class web site. For a few class sessions (where cases will be discussed) outlines of the lecture material will not be available until after the session. It is expected that you will complete all of the readings and review the lecture outlines **before** the class session.

Course Evaluation: Your course grade will be based on three components:

Case study assignments/ class participation	45%
Final Exam – April 26	55%

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Office Hours: By appointment

Case Analysis

Each team will prepare a written analysis of two cases during the term and present one of the two cases in class. For example, Teams 1 and 4 will prepare a written analysis of Nucleon and Lincoln Electric. Team 1 will present the Nucleon case to the class while Team 4 will present the Lincoln Electric case to the class.

The presenting team will provide a 20 minute PowerPoint presentation of their analysis. The team that is writing up the case but not making the presentation will follow the presenting team with comments – agreeing or disagreeing with the presenting team or bringing up additional points.

Case	Team	
	Presenting	Written Analysis Only
Nucleon, Inc	1	4
Coca Cola	2	5
MedySis	3	6
Lincoln Electric Venturing Abroad	4	1
Dovernet	5	2
Vyaderm Pharmaceutical	6	3

TOPIC LIST

Introduction and Review: Do Organizations Matter? How Economists View Behavior

- 2/27/17 **Lecture Outline:** Topic 1 Part 1
 Reading: “Incentives within Organizations”
- 3/1/17 **Lecture Outline:** Topic 1 Part 2
 Reading: Leveraged Buyouts and Private Equity

Markets and Firms as Coordinating Devices: Basic Concepts in Organizational Design

- 3/13/17 **Lecture Outline:** Topic 2 Part 1
- 3/15/17 **Lecture Outline:** Topic 2 Part 2
 Case 1: Gordon Cain and the Sterling Group (A)

Economics of Strategy: Determining the Boundaries of the Firm

- 3/20/17 **Lecture Outline:** Topic 3 Part 1
 Readings: Chapter 4: Return on Invested Capital
 Note on Corporate Strategy
- 3/22/17 **Lecture Outline:** Topic 3 Part 2

Knowledge, Transactions costs and the Determinants of Organizational Design

- 3/27/17 **Lecture Outline:** Topic 4
 Readings: “Incentives within Organizations”
 Case 2: Nucleon, Inc

Rules of the Game: Assigning Decision Rights

- 3/29/17 **Lecture Outline:** Topic 5a
 Reading: Essentials for an Effective Team
- 4/3/17 **Lecture Outline:** Topic 5b
 Case 3: Coca Cola in 2011

Incentive Compensation

4/5/17 **Lecture Outline:** Topic 6
Case 4: Medisys Corp: The Intenscare Product Development Team

Individual Performance Evaluation

4/10/17 **Lecture Outline:** Topic 7
Case 5: Lincoln Electric Venturing Abroad

Business Unit Performance Evaluation

4/13/17 **Lecture Outline:** Topic 8

4/17/17 **Case 6:** Dovernet

4/19/17 **Case 7:** Vyaderm Pharmaceuticals

4/26/17 **Final Exam**