

# Toulouse School of Economics

## Master 1 2024-2025

### Understanding Real World Organizations

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First semester, Tuesdays 8h-9h30.

#### 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 three parts. The first (weeks 1-3) 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. The second part of the course (weeks 4-9) looks at the specificities of certain types of non-market institutions: first firms and then various other institutions. In particular it introduces the idea of platforms as a way of understanding the function and operation of many types of firms as well as non-firm institutions.

The final session of the course (week 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, religious organizations, 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.

Each week's session will contain a short quiz either at the beginning of the session or at the end. The quiz will be conducted either on the website [www.kahoot.it](http://www.kahoot.it) (students may either connect using a smartphone or download the Kahoot application) or on [www.wooclap.com](http://www.wooclap.com).

## **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 (I).

Week 2: Ronald Coase and the nature of the firm (II).

Week 3: The development of markets throughout history.

Week 4: The development of non-market institutions throughout history.

### **Part 2: Firms and other non-market organizations:**

Week 5: What's special about firms (I)?

Week 6: What's special about firms (II)?

Week 7: Platforms and platform competition

Week 8: Non-market institutions I: churches, religions and charities.

Week 9: Non-market institutions II: bandits, armies and insurgent groups.

### **Part 3: The Improvisation Workshop**

Week 10: The theme for the week will be decided by the previous Monday morning.

## **Requirements**

There are no formal requirements for the course. The level of mathematics required is no higher than for the core microeconomics and game theory classes.

## **Logistics**

Students with questions about the course material are encouraged to ask them during the class or by email, to [Paul.Seabright@tse-fr.eu](mailto:Paul.Seabright@tse-fr.eu).

## **Examination:**

The course is examined by a written exam lasting 1h30. A copy of the previous year's exam will be made available to students, together with an explanation of expected answers and the grading policy.

## 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.

### 1) Game theory with realistic assumptions:

Ellingsen, Tore: *Institutional and Organizational Economics: A Behavioral Game Theory Introduction*, Polity Press.

### 2) The development of markets

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.

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

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

### 4) 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

Harari, Yuval Noah (2014): *Sapiens: A Brief History of Humankind*, Harvill Secker.

## 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):

[Greg Mankiw's blog](#)

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

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

[Noahpinion](#) (Noah Smith)

[Overcoming Bias](#) (Robin Hanson)

[SlowBoring](#) (Matthew Yglesias)

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