

## 14.283-284: ORGANIZATIONAL ECONOMICS, II

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TuTh 1:00-2:30, E62-550

<http://stellar.mit.edu/S/course/14/sp19/14.283-14.284/>

*Syllabus Version: Feb 21st, 2020*

### Overview

283 will move to (VII) Management Practices (and decentralization, knowledge hierarchies, and empirics of relational contracts),

#### Module VII: Management Practices, Power and Inequality

Lec. 1 (Tue. Mar. 3)	Facts on heterogeneity
Lec. 2 (Thu. Mar. 5)	Management-based explanations of productivity dispersion
Lec. 3 (Tue. Mar. 10)	Management Practices: Impact and Drivers
Lec. 4 (Thu. Mar. 12)	Decentralization and delegation within firms
Lec. 5 (Tue. Mar. 17)	Knowledge Hierarchies
Lec. 6 (Thu. Mar. 19)	Inequalities: CEO, Labor Share; workers

**MODULE VII: EMPIRICS OF MANAGEMENT AND ORGANIZATIONAL PRACTICES (MAR. 5 - MAR. 28)**

***Lecture 1 (Tue. Mar. 5): Facts on heterogeneity***

***Productivity Heterogeneity between Countries; Development Accounting***

- \* Caselli, Francesco (2005) “Accounting for Cross Country Income Differences” in *Handbook of Economic Growth*, Philippe Aghion and Stephen Durlauf (eds) North-Holland: Elsevier.
- Gennaioli, Nicola, Rafael La Porta, Florencio Lopez-de-Silvanes and Andrei Shleifer (2013) “Human Capital and Regional Development” *Quarterly Journal of Economics* 128(1) 105-164
- Jones, Charles (2015) “The Facts of Economic Growth” NBER Discussion Paper 21142 and Chapter 2 in John Taylor and Harald Uhlig (eds) *Handbook of Macroeconomics Volume 2A*, North Holland
- Walker, Francis (1887) “The Source of Business Profits.” *Quarterly Journal of Economics*. 1(3): 265-288.

***Productivity Heterogeneity between firms***

- Decker, Ryan, John Haltiwanger, Ron S. Jarmin, and Javier Miranda (2017) “Changing Business Dynamism and Productivity: Shocks vs. Responsiveness” University of Maryland mimeo, [file:///C:/Users/varene/Dropbox%20\(WMS\)/jvr/teaching/ORG\\_ECON\\_PhD/literature/HaltiwangerShocks\\_03\\_25\\_17.pdf](file:///C:/Users/varene/Dropbox%20(WMS)/jvr/teaching/ORG_ECON_PhD/literature/HaltiwangerShocks_03_25_17.pdf)
- \* Syverson, Chad (2011) “What determines productivity?” *Journal of Economic Literature*, 49(2) 326-65 <http://home.uchicago.edu/~syverson/productivitysurvey.pdf>

***Lecture 2 (Thu. Mar. 7): Management-based explanations of productivity dispersion***

***Managers vs Management Practices***

- Abowd, John, Francis Kramarz, and David Margolis (1999) “High Wage Workers and High Wage Firms” *Econometrica* 67(2): 251-333.
- \* Bertrand, Marianne, and Antoinette Schoar (2003) “Managing with Style: The Effect of Managers on Firm Policies.” *Quarterly Journal of Economics*, 118 (4): 1169-1208.
- Bandiera, Oriana, Stephen Hansen, Andrea Prat, and Raffaella Sadun. (2017) “CEO Behavior and Firm Performance”, HBR Working Paper 17-083 <https://dash.harvard.edu/bitstream/handle/1/30838134/17-083.pdf?sequence=1>, forthcoming *Journal of Political Economy*
- Bender, Stefan, Nick Bloom, David Card, Stefanie Wolter and John Van Reenen (2018) “Management Practices, Workforce Selection and Productivity” *Journal of Labor Economics* 36(S1) 371–409
- Edmans, Alex and Xavier Gabaix (2015) “Executive Compensation: A Primer” NBER Working Paper 31131

Lucas, Robert. (1978) “On the Size Distribution of Business Firms”, *Bell Journal of Economics*, 9: 508-523.

Perez-Gonzalez, Francisco (2006) “Inherited Control and Firm Performance,” *American Economic Review*, 1559–1588.

Smith, Mathew, Daniel Yagan, Owen Zidar and Eric Zwick. 2017. “Capitalists in the Twenty-First Century” Chicago mimeo <http://www.ericzwick.com/capitalists/capitalists.pdf>

### ***Measuring Management***

Bloom, Nick, Erik Brynjolfsson, Lucia Foster, Ron Jarmin, Megha Patnaik, Itay Saporta-Eksten and John Van Reenen, “What drives differences in management?” Forthcoming, *American Economic Review* <http://cep.lse.ac.uk/pubs/download/dp1470.pdf>

Bloom, Nick, Renata Lemos, Raffaella Sadun and Daniella Scur (2014) “The new empirical economics of management” *Journal of the European Economic Association* 12: 835–76

- \* Bloom, Nicholas, and John Van Reenen (2007) “Measuring and Explaining Management Practices across Firms and Countries”, *Quarterly Journal of Economics*, 122(4), 1341-1408.

### ***Lecture 3 (Tue. Mar. 12): Impact on performance of Management Practices; Drivers of Management***

#### ***The Impact of Management Practices on Firm Performance***

Bandiera, Oriana, Iwan Barankay and Imran Rasul (2005) “Social Preferences and the Response to Incentives: Evidence from Personnel Data.” *Quarterly Journal of Economics*, 120(3): 917–62.

- \* Bandiera, Oriana, Iwan Barankay and Imran Rasul (2007) “Incentives for managers and inequality among workers: Evidence from a firm-level experiment” *Quarterly Journal of Economics* 122(2) 729-773

Bandiera, Oriana, Iwan Barankay and Imran Rasul (2011) “Field Experiments with Firms” *Journal of Economic Perspectives*, 25(3): 63-82

- \* Bloom, Nicholas, Ben Eifert, Abrijit Mahajan, David McKenzie and John Roberts (2013) “Does management matter? Evidence from India” *Quarterly Journal of Economics* 128 (1): 1-51. <http://www.stanford.edu/~nbloom/DMM.pdf>

Bruhn, Miriam, Dean Karlan and Antoinette Schoar (2016) “The Impact of Consulting Services on Small and Medium Enterprises: Evidence from a Randomized Trial in Mexico.” *Journal of Political Economy*, forthcoming. [http://karlan.yale.edu/sites/default/files/consultingmexico\\_bks\\_feb2016.pdf](http://karlan.yale.edu/sites/default/files/consultingmexico_bks_feb2016.pdf)

Fryer, Roland (2017) “Management and Student Achievement: Evidence from a Randomized Field Experiment” Harvard mimeo [https://scholar.harvard.edu/files/fryer/files/mgmt\\_20170515\\_with\\_tables\\_figures.pdf](https://scholar.harvard.edu/files/fryer/files/mgmt_20170515_with_tables_figures.pdf)

Giorelli, Michela (2019) The Long-Term Effects of Management and Technology Transfers *American Economic Review*, 109(1): 1-33

Gosnell, Greer, John List and Robert Metcalfe (2018) “The Impact of Management Practices on Employee Productivity: A Field Experiment with Airline Captains” University of Chicago, mimeo (old version <https://www.nber.org/papers/w22316>)

Ichniowski, Casey, Katheryn Shaw and Giovanna Prennushi (1997), “The Effects of Human Resource Management: A Study of Steel Finishing Lines”, *American Economic Review*, LXXXVII (3), 291-313.

Lazear, Edward (2000) "Performance Pay and Productivity" *American Economic Review*: 90:1346-61.

McKenzie, David and Christopher Woodruff (2013) "What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?" *World Bank Research Observer*, [http://www2.warwick.ac.uk/fac/soc/economics/staff/cwoodruff/world\\_bank\\_res\\_obs-2013-mckenzie-wbro\\_lkt007.pdf](http://www2.warwick.ac.uk/fac/soc/economics/staff/cwoodruff/world_bank_res_obs-2013-mckenzie-wbro_lkt007.pdf)

McKenzie, David and Christopher Woodruff (2017) "Business Practices in Small Firms in Developing Countries" *Management Science*, 63(9), 2967-2981.

### ***Drivers of Management Practices***

Bertrand, Marianne and Schoar, Antoinette (2006) "The Role of Family in Family Firms" *Journal of Economic Perspectives*, 20(2), 73-96

Bloom, Nicholas, and John Van Reenen (2007) "Measuring and Explaining Management Practices across Firms and Countries", *Quarterly Journal of Economics*, 122(4), 1341-1408.

Bloom, Nick, Raffaella Sadun and John Van Reenen (2012) "Americans Do I.T Better: US multinationals and the productivity miracle" *American Economic Review* 102 (1), 167-201 [http://cep.lse.ac.uk/textonly/new/staff/vanreenen/pdf/aer102\(1\).pdf](http://cep.lse.ac.uk/textonly/new/staff/vanreenen/pdf/aer102(1).pdf)

- \* Bloom, Nick, Carol Propper, Stephan Seiler and John Van Reenen (2015) "The Impact of Competition on Management Quality: Evidence from Public hospitals" *Review of Economic Studies* 82: 457-489 <http://cep.lse.ac.uk/pubs/download/dp0983.pdf>

Bloom, Nick, Erik Brynjolfsson, Lucia Foster, Ron Jarmin, Megha Patnaik, Itay Saporta-Eksten and John Van Reenen, "What drives differences in management?" Forthcoming, *American Economic Review* <http://cep.lse.ac.uk/pubs/download/dp1470.pdf>

### ***Linking Micro and Macro***

Bartelsman, Erik, Haltiwanger, John and Scarpetta, Stefano (2013) "Cross Country Differences in Productivity: The Role of Allocation and Selection" *American Economic Review*, 103(1) 305-334

Bloom, Nick, Raffaella Sadun and John Van Reenen (2017) "Management as a Technology" CEP Discussion Paper 1433 <http://cep.lse.ac.uk/pubs/download/dp1433.pdf>

- \* Hsieh, Chiang-Tai and Pete Klenow (2009), "Misallocation and Manufacturing TFP in China and India", *Quarterly Journal of Economics*, 124(4), 1403-1448

Rotemberg, Martin and T. Kirk White (2017) "Measuring Cross-Country Differences in Misallocation" NYU mimeo, [https://sites.tufts.edu/neudc2017/files/2017/10/paper\\_325.pdf](https://sites.tufts.edu/neudc2017/files/2017/10/paper_325.pdf)

### ***Lecture 4 (Thu. Mar. 14): Decentralization and delegation within firms***

#### *a. Theory Revision and overview*

Aghion, Philippe and Jean Tirole (1997) "Formal and Real Authority in Organizations" *Journal of Political Economy*, 105:1-29

Aghion, Philippe, Nick Bloom and John Van Reenen (2014) “Incomplete contracts and the internal organization of firms” *Journal of Law, Economics and Organization* 30(1), 37-64  
<http://cep.lse.ac.uk/pubs/download/occasional/op036.pdf>

\* Gibbons, Robert, Niko Matouschek and John Roberts (2013) “Decisions in Organizations” in Gibbons and Roberts op-cit.

#### b. Measurement

\*Bloom, Nick, Raffaella Sadun and John Van Reenen (2010) “Recent Advances in the empirics of organizational economics” *Annual Review of Economics* 2:105-37  
<http://cep.lse.ac.uk/pubs/download/dp0970.pdf>

Calienda, Lorenzo, Ferdinando Monte and Esteban Rossi-Hansberg (2015) “The Anatomy of French Production Hierarchies” *Journal of Political Economy*, 123:4, 809-852

Palacios-Huerta, Ignacio and Andrea Prat (2010) “Measuring the Impact Factor of Agents within an Organization Using Communication Patterns.” CEPR Discussion Paper 8040  
<https://ideas.repec.org/p/cpr/ceprdp/8040.html>

Rajan, Raghuram and Julie Wulf (2006) “The Flattening Firm: Evidence from Panel Data on the Changing Nature of Corporate Hierarchies”, *Review of Economics and Statistics*, 88(4), 759-773.

Wu, Yanhui (2016) “Authority, Incentives, and Performance: Evidence from a Chinese Newspaper”, *Review of Economics and Statistics*, 2016: 99(1).

#### c. Uncertainty, heterogeneity, volatility

\*Acemoglu, Daron, Philippe Aghion, Claire Lelarge, John Van Reenen, and Fabrizio Zilibotti (2007) “Technology, Information and the Decentralization of the Firm”, *Quarterly Journal of Economics*, 122(4), 1759–1799.

Aghion, Philippe, Nick Bloom, Brian Lucking, Raffaella Sadun and John Van Reenen (2017) “Turbulence, Firm Decentralization and Growth in Bad Times” CEP Discussion Paper 1479  
<http://cep.lse.ac.uk/pubs/download/dp1479.pdf>

#### d. Culture and Trust

\* Bloom, Nicholas, Sadun, Raffaella and John Van Reenen. (2012). “The organization of firms across countries”, *Quarterly Journal of Economics* <https://academic.oup.com/qje/article-lookup/doi/10.1093/qje/qje029>

#### e. Human Capital

Blundell, Richard, David Green and Wenchao Jin (2016) “The UK Wage Premium Puzzle: How Did a Large Increase in University Graduates Leave the Education Premium Unchanged?” IFS Working Paper W16/01, <https://www.ifs.org.uk/uploads/publications/wps/WP201601.pdf>

Bresnahan, Tim, Erik Brynjolfsson and Lorin M. Hitt (2002) “Information Technology, Workplace Organization, and the Demand for Skilled Labor: Firm-Level Evidence” *Quarterly Journal of Economics*, 117(1), 339-376

Caroli, Eve and John Van Reenen (2001) “Skill biased organisational change? Evidence from British and French establishments” *Quarterly Journal of Economics* CXVI, No. 4, 1449-1492  
[http://cep.lse.ac.uk/textonly/people/vanreenen/papers/oc\\_skills.pdf](http://cep.lse.ac.uk/textonly/people/vanreenen/papers/oc_skills.pdf)

#### f. Trade and Competition

Bloom, Nicholas, Sadun, Raffaella and John Van Reenen. (2010) “Does Product Market Competition Lead firms to decentralize?” *American Economic Review Papers and Proceedings* 100, 434-438

Guadalupe, Maria and Julie Wulf (2010) “The Flattening Firm and Product Market Competition: The Effect of Trade Liberalization on Corporate Hierarchies” *American Economic Journal: Applied Economics*, 2(4), 105-27

**Lecture 5 (Tue. Mar. 19): Knowledge Hierarchies**

*a. Division of labor, cognitive theory of firm and ICT*

Becker, Gary and Kevin Murphy (1992) “The Division of Labor, Co-ordination costs and Knowledge” *Quarterly Journal of Economics*, 107(2), 1137-1160

Bloom, Nick, Luis Garicano, Raffaella Sadun and John Van Reenen (2014) “The distinct effects of Information Technology and Communication Technology on firm organization” *Management Science* 60(12) 2259-2885 <http://cep.lse.ac.uk/pubs/download/dp0927.pdf>

\*Garicano, Luis (2000) “Hierarchies and the Organization of Knowledge in Production” *Journal of Political Economy*, 108(5) 874-904

Garicano, Luis and Thomas N. Hubbard (2009) “Specialization, Firms, and Markets: The Division of Labor within and between Law Firms” *Journal of Law, Economics, and Organization* 25(2) 339-371.

*b. Assignment: Firm size, Talent and productivity*

Gabaix, Xavier and Augustin Landier (2008) “Why Has CEO Pay increased so much?” *Quarterly Journal of Economics*, 123: 49-100.

\*Garicano, Luis, Claire Lelarge and John Van Reenen (2016) “Firm Size Distortions and the Productivity Distribution: Evidence from France” <http://cep.lse.ac.uk/pubs/download/dp1128.pdf> *American Economic Review* 106(11) 3439-79

Lucas, Robert E. (1978) “On the Size Distribution of Business Firms” *Bell Journal of Economics*, 9(2), 508-523.

*c. Trade, Earnings and hierarchical layers*

\*Calienda, Lorenzo, Ferdinando Monte and Esteban Rossi-Hansberg (2015) “The Anatomy of French Production Hierarchies” *Journal of Political Economy*, 123:4, 809-852

Caliendo, Lorenzo, Giordano Mion, Luca Oromolla and Esteban Rossi-Hansberg (2017) “Productivity and Organization in Portuguese Firms,” Princeton mimeo <https://www.princeton.edu/~ecrossi/POPF.pdf>

**Lecture 6 (Thu. Mar. 21): Inequalities**

**I. CEOs**

Bandiera, Oriana, Stephen Hanson, Andrea Prat, and Raffaella Sadun. (2017) “CEO Behavior and Firm Performance”, HBR Working Paper 17-083, forthcoming, *Journal of Political Economy* <https://dash.harvard.edu/bitstream/handle/1/30838134/17-083.pdf?sequence=1>

Bebchuk, L. and Fried, J. (2004) *Pay without Performance: The Unfulfilled Promise of Executive Compensation*, Cambridge: Harvard University Press

Bell, Brian and John Van Reenen (2016) "CEO Pay and the Rise of Relative Performance Contracts: A Question of governance" CEP Discussion Paper No. 1436, <http://cep.lse.ac.uk/pubs/download/dp1439.pdf>

Bennedsen, Morten, Kasper Nielsen, Francisco Perez-Gonzalez and Daniel Wolfenzon (2007), "Inside the family firm: the role of families in succession decisions and performance", *Quarterly Journal of Economics*, 647-691.

Bertrand, Marianne, (2009) "CEOs", *Annual Review of Economics*, 1(1), 121-150

Bertrand, M. and Mullainathan, S. (2001) "Are CEOs rewarded for luck? The ones without principals are", *Quarterly Journal of Economics*, 116, 901-32.

Bertrand, Marianne, and Antoinette Schoar (2003) "Managing with Style: The Effect of Managers on Firm Policies." *Quarterly Journal of Economics*, 118 (4): 1169-1208.

Canyon, M., Fernandes, N., Ferreira, M., Matos, P., and Murphy, K. (2011) "The Executive Compensation Controversy: A Transatlantic Analysis", in Tito Boeri, Claudio L. and K. Murphy (eds) *Executive Remuneration and employee Performance Related Pay*, Oxford: Oxford University Press, 116-122

\*Edmans, Alex and Xavier Gabaix (2016) "Executive Compensation: A Modern Primer" *Journal of Economic Literature*, 54(4), 1232-87

Gabaix, Xavier and Augustin Landier (2008) "Why Has CEO Pay increased so much?" *Quarterly Journal of Economics*, 123: 49-100.

\*Garicano, Luis, Claire Lelarge and John Van Reenen (2016) "Firm Size Distortions and the Productivity Distribution: Evidence from France" <http://cep.lse.ac.uk/pubs/download/dp1128.pdf> *American Economic Review* 106(11) 3439-79

Lucas, Robert E. (1978) "On the Size Distribution of Business Firms" *Bell Journal of Economics*, 9(2), 508-523.

Piketty, Thomas, Emmanuel Saez, and Stefanie Stantcheva (2014) "Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities." *American Economic Journal: Economic Policy*, 6 (1): 230-71.

## **II. General Inequality between workers**

### *Facts*

Autor, David (2019) "Work of the Past, Work of the Future" *American Economic Review*, 109: 1–32  
<https://economics.mit.edu/files/16724>

Autor, David (2014) "Skills, education, and the rise of earnings inequality among the other 99 percent" *Science* 344(6186) 842-

Piketty, Thomas and Emmanuel Saez (2014) "Inequality in the Long-Run" *Science* 344(6186) 838-842  
<http://eml.berkeley.edu/~saez/piketty-saezScience14.pdf>,

### *Firm effects and Rent sharing*

Abowd et al (1999) op-cit

Card, David, Joerg Heining and Patrick Kline (2013) "[Workplace Heterogeneity and the Rise of West German Wage Inequality](#)," *The Quarterly Journal of Economics*, 128(3), pages 967-1015

Card, David, Ana Rute Cardoso, Joerg Heining and Pat Kline (2018) [Firms and Labor Market Inequality: Evidence and Some Theory](#) *Journal of Labor Economics*, 36 S13-S70.

Card, David, Ana Cardoso, Joerg Heining and Patrick Kline (2016) [Bargaining, Sorting, and the Gender Wage Gap: Quantifying the Impact of Firms on the Relative Pay of Women](#) *The Quarterly Journal of Economics*, vol 131(2), pages 633-686

Caroli, Eve and John Van Reenen (2001) op-cit

Kline, Patrick, Neviana Petkova, Heidi Williams, and Owen Zidar (2019) [“Who Profits from Patents? Rent Sharing at Innovative Firms”](#) *Quarterly Journal of Economics*, 134 1343–1404.

Song, Jae, Nick Bloom, David Price, Fatih Guvenen and Til von Wachter (2019) “Firming up inequality” *Quarterly Journal of Economics* 134(1) 1–50

Van Reenen, John (1996) “The Creation and Capture of Economic Rents: Wages and Innovation in a Panel of UK Companies” *Quarterly Journal of Economics* 111(1), 195-226

#### *Tasks, Skills and technical change*

Acemoglu, Daron and Pascual Restrepo (2017) “Robots and Jobs” NBER Working Paper 23285

Acemoglu, Daron, and Pascual Restrepo (2018) “The Race between Man and Machine: Implications of Technology for Growth, Factor Shares, and Employment.” *American Economic Review* 108 (6): 1488–1542.

Acemoglu, Daron and David Autor (2011) “Skills, Tasks and Technologies: Implications for Employment and Earnings” *Handbook of Labor Economics* (edited by Orley Ashenfelter and David Card) <http://economics.mit.edu/files/5574>

Aghion, Philippe, Ufuk Akcigit, Antonin Bergeaud, Richard Blundell and David Hemous (2018) “Innovation and top income inequality” *Review of Economic studies* 86(1) 1 – 45,

Goldin C. and Katz L. (2008) *The Race Between Education and Technology*. Harvard: Harvard University Press

Michaels, Guy, Ashwini Natraj and John Van Reenen (2014) “Has ICT Polarized Skill Demand? Evidence from Eleven Countries over 25 Years”, *Review of Economics and Statistics* (2014) 96(1) 60–77 <http://cep.lse.ac.uk/pubs/download/dp0987.pdf>

#### *Falling Share of Labour in GDP*

Autor, David and Anna Salomons (2018) “Is Automation Labor-Displacing? Productivity Growth, Employment, and the Labor Share” *Brookings Papers on Economic Activity*, 1-63.

\*Autor, David, David Dorn, Larry Katz, Christina Patterson and John Van Reenen (2017), “Superstar Firms and the Decline of Labour’s Share” CEP Discussion Paper 1482 <http://cep.lse.ac.uk/pubs/download/dp1482.pdf>, *Forthcoming, Quarterly Journal of Economics*



\*De Loecker, Jan, Jan Eeckhout and Gabriel Unger (2018) "The Rise of Market Power and the Macroeconomic Implications." Working Paper, Pompeu Fabra University.  
<http://www.janeeckhout.com/wp-content/uploads/RMP.pdf>

Karabarbounis, Loukas and Brent Neiman (2013) "The Global Decline of the Labor Share." *Quarterly Journal of Economics*, 129(1), 61-103.

Karabarbounis, Loukas and Brent Neiman (2018) "Accounting for Factorless Income." NBER Working Paper 24404

## **Recitations**

### **Week 1**

Bandiera, Oriana, Iwan Barankay and Imran Rasul (2007) "Incentives for managers and inequality among workers: Evidence from a firm-level experiment" *Quarterly Journal of Economics* 122(2) 729-773

### **Week 2**

Garicano, Luis, Claire Lelarge and John Van Reenen (2016) "Firm Size Distortions and the Productivity Distribution: Evidence from France" <http://cep.lse.ac.uk/pubs/download/dp1128.pdf> *American Economic Review* 106(11) 3439-79

### **Week 3**

Bloom, Nicholas, Sadun, Raffaella and John Van Reenen. (2012). "The organization of firms across countries", *Quarterly Journal of Economics*, 127(4) 1663-1705 <https://academic.oup.com/qje/article-lookup/doi/10.1093/qje/qje029>