

Theories and Behavior of the Firm

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Course Outline

The process of production, and “firms,” which can be construed broadly as “sites of” or “ways of organizing” production and related activities, are important real world phenomena, affecting our lives in many different ways. Hence, they have received widespread attention from social scientists - not just economists, but also sociologists, political scientists, geographers etc. Given that the organization of production has implications for the distribution of power and economic rewards, scholars (economists, philosophers etc.) working from normative perspectives have also devoted considerable attention to this issue. In this course, we will try to understand some of the important ideas in this literature. This literature is vast and multidisciplinary, so we need to be selective – our focus will largely be on the literature in economics, although we will discuss some readings from sociology and philosophy. We will also focus on firms and the process of production of the kind that dominate the world today, and that we are all familiar with viz., capitalist firms and the capitalist process of production, although we will devote some time to alternative forms of organization, e.g. worker cooperatives. There are several elements/factors associated with production, but we will place special emphasis on the study of labor, given its importance and the rich literature existing on the “labor process.”

There are three distinct, but related components of this course. First, we will read classic texts (e.g. Adam Smith’s *Wealth of Nations*) to examine how these scholars understood and critiqued capitalist production. Reading of classics should be an essential part of training in economics – so this component is important in itself, but this will also give us an opportunity to examine how relevant these ideas are today and how scholars in contemporary times have tried to develop/deploy them. This component is “reading intensive.” Second, we will discuss contemporary writings from various perspectives (e.g. Walrasian, Marxian, New Institutionalism). Some of these readings try to explain (and defend) the capitalist production process on grounds of efficiency; others criticize it on ethical grounds and on grounds of inefficiency, whereas some others, while accepting these critiques, explore why alternatives (e.g. labor managed firms) have had limited success and how we could move forward. Unlike the first part, this part is a mix of technical (micro-based, mathematical) models and discussions involving history and philosophy. Third, we will discuss some material from India.

I have provided a list of readings below. In all likelihood, we will not be able to discuss all of them – we will have to select from this list based upon the time that we have at our disposal. However, you will benefit from reading material that we have

left out - the assignments and term paper (more on this below) could also draw upon these.

All the readings and books required are on reserve in the library. I expect you to read the material before coming to the class. Many of the readings will be *discussed* in the class and I expect each of you to interact and contribute to the discussion. When we are dealing with technical material, I will work out and explain the mathematical models, but even in this case, reading the material before will be useful.

Prerequisites

You should have taken Microeconomic Theory I. Students who are currently enrolled in Microeconomic Theory I (i.e. first year M.Sc. or M.Phil/Ph.D. students) will have to meet me and take my permission before registering for the course.

Course URL

Information and material for the course will be posted on a regular basis at:
<http://www.igidr.ac.in/faculty/sripad/firm.htm>

Evaluation

Your grade will be based upon the marks that you receive at the end of the course. There will be 2 or 3 take home and in-class assignments (50%) and a term paper (50%).

Plagiarism and Academic Dishonesty

Please desist from plagiarism or other forms of academic dishonesty. These will be dealt with according to the rules of the institute.

Special Needs

If you need any special arrangement because you are physically challenged (or otherwise) please contact me and I will accommodate your request according to the institute guidelines and do the best that I can.

Tentative Schedule of Readings

Part I

(For each reading, I will provide the context and discuss basic ideas – some of this may not be present in the selections that I have indicated below. Therefore, I am placing both the books and copies of the selections on reserve.)

- Selections from Adam Smith *Wealth of Nations* (Book I, Chapters 1, 2 and 3; Book V, portions of Chapter 1)
- Selections from Karl Marx *Capital Vol. 1* (Chapters 12-14, portions of Chapter 15. Will discuss some basic concepts)

Part II

- Coase, Ronald (1937) "The Nature of the Firm," *Economica*, 4, pp. 386-405.
- Alchian, Armen and Harold Demsetz (1972), "Production, Information Costs and Economic Organization," *American Economic Review*, 62, pp. 777-795.
- Bowles, Samuel (1985) "The Production Process in a Competitive Economy: Walrasian, Neo-Hobbesian and Marxian Models," *American Economic Review*, 75, pp. 16-36.
- Bowles, Samuel (2004), *Microeconomics: Behavior, Institutions and Evolution*, Part II
- Braverman, Harry (1974) *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century*, New York: Monthly Review Press. (Selections)
- Burawoy, Michael (1979) *Manufacturing Consent: Changes in the Labor Process under Monopoly Capitalism*, Chicago: University of Chicago Press. (Selections)
- Noble, David. F. (1978) "Social Choice in Machine Design: The Case of Automatically Controlled Machine Tools, and a Challenge for Labor," *Politics and Society*, 8, pp. 313-47.
- Bowles, Samuel and Gintis, Herbert (1993) "A Political and Economic Case for the Democratic Enterprise," *Economics and Philosophy*, 9 (1), pp. 75-100.
- Dow, Gregory (2003), *Governing the Firm: Workers Control in Theory and Practice* (Selections)
- Wright, Erik Olin (2010) *Envisioning Real Utopias*, London: Verso. (Selections)

Part III

- Readings will be given later