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**Topics in Management and Applied Microeconomics:
Incomplete Contracts and the Property Rights Approach**

Summer Term 2019

Outline: This topics course will be focused on the property rights approach based on the incomplete contracting paradigm. The property rights theory was originally developed to investigate the pros and cons of vertical integration in the private sector, but has also become a very useful theory to study ownership structures in the public sector. The papers that we will discuss in the course extend the property rights approach, for example by introducing asymmetric information, by considering different renegotiation games or by viewing contracts as reference points.

Background literature:

Grossman, S.J., Hart, O.D., 1986. The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy* 94, 691-719.

Hart, O.D., Moore, J., 1990. Property rights and the nature of the firm. *Journal of Political Economy* 98, 1119-1158.

Hart, O.D., 1995. *Firms, Contracts and Financial Structure*. Oxford University Press.

Time and venue: see basis.uni-bonn.de

Topics for term papers:

- Public versus private ownership

Besley, T., Ghatak, M., 2001. Government versus private ownership of public goods. *Quarterly Journal of Economics* 116, 1343-1372.

Francesconi, M., Muthoo, A., 2011. Control rights in complex partnerships. *Journal of the European Economic Association* 9, 551-589.

Hart, O., Shleifer, A., Vishny, R.W., 1997. The proper scope of government: Theory and application to prisons. *Quarterly Journal of Economics* 112, 1127–1161.

Hoppe, E.I., Schmitz, P.W., 2010. Public versus private ownership: Quantity contracts and the allocation of investment tasks. *Journal of Public Economics* 94, 258–268.

- The management of innovation

Aghion, P., Tirole, J., 1994. The management of innovation. *Quarterly Journal of Economics* 109, 1185–1209.

Kusterer, D.J., Schmitz, P.W., 2017. The management of innovation: Experimental evidence. *Games and Economic Behavior* 104, 706–725.

- A closer look at the renegotiation stage

De Meza, D., Lockwood, B., 1998. Does asset ownership always motivate managers? Outside options and the property rights theory of the firm. *Quarterly Journal of Economics* 113, 361–386.

Schmitz, P.W., 2006. Information gathering, transaction costs, and the property rights approach. *American Economic Review* 96, 422–434.

- Contracts as reference points

Brandts, J., Ellman, M., Charness, G., 2016. Let’s talk: How communication affects contract design. *Journal of the European Economic Association* 14, 943–974.

Fehr, E., Hart, O., Zehnder, C., 2011. Contracts as reference points – experimental evidence. *American Economic Review* 101, 493–525.

Fehr, E., Hart, O., Zehnder, C., 2015. How do informal agreements and revision shape contractual reference points? *Journal of the European Economic Association* 13, 120–121.

Hart, O., Moore, J., 2008. Contracts as reference points. *Quarterly Journal of Economics* 123, 1–48.