

1. Name of Course:

Contract Theory and Property Rights.

2. Lecturer:

Ugo Pagano

3. Credits:

2 CEU credits and 4 ECTS credits

4. Semester:

Fall Term

5. Pre-Requisites:

The course is open also to students of other departments but students who have not attended 1st year M. A. course in Economics are expected to talk with the lecturer.

6. Course Level:

MA/PhD

7. Course outline:

The course introduces the main problems of the economics of property rights and contracts.

8. The goals of the course:

We will start by considering incomplete transaction cost and contract theories focusing on the efficient arrangements that arise under alternative technological characteristics of the economy including the human capital endowments of the agents. We will extend the assumptions concerning the incompleteness of contracts and examine the feedback of ownership arrangements on property rights. The understanding of the multiplicity of technological and property rights arrangements is the ultimate goals of the course.

9. Learning outcomes of the course:

The students should acquire a critical understanding of the foundations of

microeconomic theory and a comprehension of the methodologies of comparative institutional analysis.

10. More detailed display of contents:

Under positive transaction costs, contracts are likely to be incomplete. Contract theory and, in particular, the study of incomplete contracts developed by "New Property Rights School" provide a framework that helps to explain why alternative allocation of property rights matter for efficiency. Moreover, they give us an interesting "second best" definition of efficient property rights that is missing in the first best world of standard economic theory. Standard incomplete contract theory focuses on the efficient arrangements that arise under alternative technological characteristics of the economy including the human capital endowments of the agents. In this course we will extend the assumptions concerning the incompleteness of contracts and examine the feedback of ownership arrangements on property rights. We will consider alternative self-reinforcing relation between property rights and technology and argue that their interactions can be better treated in terms of "institutional complementarities". We apply the "institutional complementarities approach" also to other contracts such as those concerning intellectual property rights and financial markets. The aim of the course is to deepen the study of property rights and contract theory to provide a framework for the comparative analysis of alternative economic systems.

Course outline

A. Transaction costs analysis and the problem of Economic Organisation.

Readings:

- Coase R. H. (1988) *The Firm, the Market and the Law*. The University of Chicago Press. Chicago and London.
- Demsetz H. (1988) *Ownership, Control and the Firm*. The Organization of Economic Activity. Vol. I. Blackwell, Oxford.
- Williamson O. E. (1985) *The Economic Institutions of Capitalism*. The Free Press, New York.
- Pagano U. (1992) *Authority, Co-ordination and Disequilibrium: an Explanation of the Co-existence of Markets and Firms*. *Economic Dynamics and Structural Change*. June 1992. Reprinted in G. Hodgson (1993) *The Economics of Institutions*. Edward Elgar, Cheltenham.
- Pagano U. (2000) *Public Markets, Private Orderings and Public Governance*. Mimeo, Siena. *International Review of Law and Economics* (2000) v. 20 pp. 453-457.

B. Contract Theory, Incomplete Contracts and Efficient Ownership.

Readings.

Hart O. (1995) *Firms Contracts and Financial Structure*. Clarendon Press, Oxford.

Pagano U., Rossi A. (2004) *Incomplete Contracts, Intellectual Property and Institutional Complementarities*. *European Journal of Law and Economics*.

*Bolton P., Scharfstein D. S. (1998) *Corporate Finance, the Theory of the Firm, and Organizations*. *The Journal of Economic Perspectives* V. 12 pp. 95-115.

*Hart O., Moore J. (1999) *Foundations of Incomplete Contracts*. *Review of Economic Studies* V. 66 pp 115-138.

*Holmstrom B., Roberts J. (1998) *The Boundaries of the Firm Revisited*. *The Journal of Economic Perspectives* V. 12 pp. 73-95.

*Maskin E., Tirole J. (1999) *Unforeseen Contingencies and Incomplete Contracts*. *Review of Economic Studies*, V. 66 p. 83 -114.

C. Institutional Complementarities and alternatives to New Property rights approach.

Aoki M. (2001) *Towards a Comparative Institutional Analysis*. MIT Press, Boston.

Nicita A., Pagano U. *Law and Economics in Retrospect*. In Brousseau E., Glachant (2008) M. *New Institutional Economics. A Guidebook*. pp.409-424. Cambridge: University Press.

Pagano U. (2007) *Legal Positions and Institutional Complementarities*. In Cafaggi F. Nicita A. Pagano U. *Legal Orderings and Economic Institutions*. Routledge, London and New York Routledge (2007) pp. 54-83.

D. Evolutionary economics and the multiplicity of economic institutions.

Aoki M. (1995) *Controlling Insider Control: Issues of Corporate Governance in Transition Economies*. In Aoki M. and Kim Hyung-Ki. *Corporate Governance in Transitional Economies*. EDI Development Studies, The World Bank,

Washington.

Nelson R.. (1995), Recent Evolutionary Theorizing About Economic Change, Journal of Economic Literature, vol. 33, pp. 48-90.

Pagano U., Rowthorn R. eds. (1996) The Competitive Selection of Democratic Firms in a World of Self-Sustaining Institutions in Democracy and Efficiency in the Economic Enterprise. Routledge London and New York.

Williamson, O.E. (1996) The Mechanism of Governance, Oxford University Press, New York. Chapter 7.

***Readings are not compulsory.**

11. Assessment:

Students are encouraged to write an essay and give a talk during the course. The essay mark is averaged with the final exam mark only if the former is higher than the latter.

12. Office hours:

At the end of each lecture or by appointment with the lecturer.