Contents

Editors’ preface ix
Reintroducing The Economic Nature of the Firm 1
RANDALL S. KROSZNER AND LOUIS PUTTERMAN

Part I. Within and among firms: the division of labor
1. From The Wealth of Nations 35
   ADAM SMITH
2. From Capital 46
   KARL MARX
3. From Risk, Uncertainty, and Profit 52
   FRANK KNIGHT
4. From The Modern Corporation and Private Property 58
   ADOLF A. BERLE, JR., AND GARDINER C. MEANS
5. The use of knowledge in society 63
   FRIEDRICH HAYEK
6. Corporate governance 69
   LUIGI ZINGALES

Part II. The scope of the firm
7. The nature of the firm 79
   RONALD COASE
8. Vertical integration, appropriable rents, and the competitive contracting process 96
   BENJAMIN KLEIN, ROBERT CRAWFORD, AND ARMEN ALCHIAN
9. The governance of contractual relations 116
   OLIVER WILLIAMSON
10. The limits of firms: incentive and bureaucratic features 127
    OLIVER WILLIAMSON
CONTENTS

11. Bargaining costs, influence costs, and the organization of economic activity 143
   PAUL MILGROM AND JOHN ROBERTS

12. The boundaries of the firm revisited 156
   BENGT HOLMSTROM AND JOHN ROBERTS

Part III. The employment relation, the human factor, and internal organization

13. Production, information costs, and economic organization 173
   ARMEN ALCHIAN AND HAROLD DEMSETZ

14. Contested exchange: new microfoundations for the political economy of capitalism 197
   SAMUEL BOWLES AND HERBERT GINTIS

15. Understanding the employment relation: the analysis of idiosyncratic exchange 212
   OLIVER WILLIAMSON, MICHAEL WACHTER, AND JEFFREY HARRIS

   BENGT HOLMSTROM AND PAUL MILGROM

17. Work motivation 245
   TRUMAN BEWLEY

18. Worker participation 253
   JOHN PENCAYE

Part IV. Finance and the control of the firm

19. Mergers and the market for corporate control 267
   HENRY MANNE

20. Agency problems and the theory of the firm 270
   EUGENE FAMA

21. Theory of the firm: managerial behavior, agency costs, and ownership structure 283
   MICHAEL JENSEN AND WILLIAM MECKLING

22. Organizational forms and investment decisions 304
   EUGENE FAMA AND MICHAEL JENSEN

23. The rise in managerial stock ownership 313
   CLIFFORD G. HOLDERNESS, RANDALL S. KROSZNER, AND DENNIS P. SHEEHAN
Contents

24. Executive compensation as an agency problem 327
   LUCIAN ARYE BEBCHUK AND JESSE M. FRIED

25. An economist’s perspective on the theory of the firm 346
   OLIVER HART

26. Ownership and the nature of the firm 353
   LOUIS PUTTERMAN

References 363