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978-0-521-19394-8 - The Economic Nature of the Firm: A Reader: Third Edition

Edited by Randall S. Kroszner and Louis Putterman

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The economic nature of the firm

Third edition

This book brings together classic writings on the economic nature and organization of firms, including works by Ronald Coase, Oliver Williamson, and Michael Jensen and William Meckling, as well as more recent contributions by Paul Milgrom, Bengt Holmstrom, John Roberts, Oliver Hart, Luigi Zingales, and others. Part I explores the general theme of the firm's nature and place in the market economy; Part II addresses the question of which transactions are integrated under a firm's roof and what limits the growth of firms; Part III examines employer–employee relations and the motivation of labor; and Part IV studies the firm's organization from the standpoint of financing and the relationship between owners and managers.

The volume also includes a consolidated bibliography of sources cited by these authors and an introductory essay by the editors that surveys the new institutional economics of the firm and issues raised in the anthology. The collection introduces the core literature to advanced undergraduates; business and economics graduate students; and scholars in allied disciplines including law, sociology, and organization and management.

Randall S. Kroszner is the Norman R. Bobins Professor of Economics at the University of Chicago's Booth School of Business, which he joined in 1990. He was a member of the President's Council of Economic Advisers in Washington, DC, from 2001 to 2003. From March 2006 to January 2009, Professor Kroszner served as a Governor on the Board of Governors of the Federal Reserve Board. He is a specialist in the regulation of banking and financial institutions, corporate governance, international financial crises, debt restructuring, and monetary economics, and he served as director of the George J. Stigler Center for the Study of the Economy and editor of the *Journal of Law and Economics*. Professor Kroszner received his Ph.D. from Harvard University in 1990.

Louis Putterman is Professor of Economics at Brown University, where he has taught since 1980. He is coauthor of *Economics of Cooperation and the Labor-Managed Economy* (1987, with John Bonin); author of *Division of Labor and Welfare* (1990); coeditor of *Economics, Values, and Organization* (1998, with Avner Ben-Ner); and author of *Dollars and Change: Economics in Context* (2001). Professor Putterman's current research interests focus on experimental economics and development and international economics, particularly the economics of China. He edited the first edition of *The Economic Nature of the Firm* and coedited the second edition with Professor Kroszner. Professor Putterman received his Ph.D. from Yale University in 1980.

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A reader
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Edited by

Randall S. Kroszner

UNIVERSITY OF CHICAGO

Louis Putterman

BROWN UNIVERSITY



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Editors' preface

With the exception of this Preface and the Introduction, the present volume consists of selections from material previously published in books or professional journals. With each piece is included a source note that gives the full bibliographic reference of the original work and acknowledges those who granted permission to use the material. In the case of articles, the degree of completeness versus abridgement is indicated by the phrases “reprinted from,” “reprinted with minor abridgements,” “reprinted with abridgements,” and “excerpted from,” in increasing order of abridgement. Book excerpts are understood to constitute only small selections from the originals. The chapter or section from which each portion is taken has been indicated in section headings within such selections. Ellipses within both book and journal selections are used to indicate omitted portions. However, where footnotes have been deleted, no notation has been made, and the remaining notes have been renumbered consecutively.

Minor alterations in style have been made for purposes of consistency. The references have been gathered into a single listing at the end of the book, and bibliographic particulars have been added, when necessary and feasible, to make the references as complete as possible and to have them accord with the standard format of major professional journals. Reference data, except for citations of authors' names and the dates of publication, have been moved to this list from the text and notes. Authors' notes of acknowledgment, which often appear at the beginning of the original journal papers, have been removed on grounds that they are frequently dated or unimportant to the purposes of this volume, and in order to conserve space. In their place, a very brief biographical note on the authors has been added to each selection.

We have found inspiration and help from many sources. Putterman's introduction to the literature collected here came from both the graduate microeconomics course and further reading and discussion with Sidney Winter, then at Yale University. Kroszner encountered many of the included items as an undergraduate working with Putterman at Brown University on the first edition of this book. Kroszner went on to receive his Ph.D. in economics from Harvard University in 1990 and is currently the Norman R. Bobins Professor of Economics in the Booth School of Business of the University of Chicago.

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EDITORS' PREFACE

The idea for the initial volume was encouraged by Lee Alston, Wesley Cohen, Gregory Dow, Michael McPherson, Oliver Williamson, Gordon Winston, and especially Victor Goldberg, who helped shape its contents. For our subsequent reading of the literature, we are especially indebted to Tyler Cowen, Gregory Dow, Thomas Hubbard, Joseph Kalt, Richard Langlois, Bentley MacLeod, Gil Skillman, and Luigi Zingales. We thank the authors who have given permission to reprint their work, and especially Bengt Holmstrom, Paul Milgrom, and Oliver Williamson, who also contributed suggestions and encouragement. Finally, our thanks to Robert Corey-Boulet, Debra Kao, and Vero Testa for help in assembling biographical information, copyrights, and bibliography, and to Scott Parris and others at Cambridge University Press for their support and assistance with this project.