

BSM940 Economic Environment of Business

Academic Year 2012/13

Number of Aston Credits: 15

Number of ECTS Credits: 7.5

Staff Member Responsible for the Module:

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Availability: during office hours; details for each week available via Aston Web
Appointment Scheduling System at
<<<https://wass.aston.ac.uk/wass/pages/login.page.php>>>

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Pre-requisites for the Module:

None

Mode of Attendance:

On Campus

Information for Distance Learning Students:

All information regarding this module is available/can be found on the Blackboard.

Module Objectives

The aim of this module is to provide students with (a) an introduction to the economic institutional environment within which business enterprises operate, and (b) an appreciation of the importance of the economic institutional environment for the performance of an industry and enterprises within it.

Learning Outcomes

Students should develop: (a) the ability to apply relevant economic principles, concepts and tools to the analysis of issues faced by businesses related to its economic institutional environment, and (b) an understanding of the implications of the economic institutional environment for business operation.

By the end of this module, students should be able to:

- > assess the implications of the diverse economic institutional environment for businesses;
- > assess, in broad terms, implications of economic policies and institutional change for the national economy, an industry and an enterprise;
- > discuss, in broad terms, strategic options available to a business in a specific economic institutional environment.

Module Content:

Students will be introduced to the institutional structure of production, institutional frameworks and following that to the possible links between these structures and business performance. The role of institutions and organization, including corporate governance, in alleviating business uncertainty, decreasing transaction costs and attenuating agency problems will be highlighted. The course will emphasize the similarities in our analysis of both business organizations and of the institutional frameworks at the economy level that affect businesses.

Week 1: The institutional structure of production and institutional approach to organization

We will start with micro applications of institutional analysis, and will discuss businesses as seen not only as specific production functions (as in the microeconomic analysis) but also as organizations that can be optimized and modified, responding to changes in environment.

Week 2: Institutional Frameworks and Development

Next, we will move to the level of the whole economy and discuss the institutional framework. We will ask how the institutions evolve and how these evolutions link with the process of economic growth and business performance.

Week 3: Laws, rules and regulations

Week 4: Contracts and norms



Week 5: Transactions cost

These three topics will focus on how the firms operations and production is affected by the institutional framework, and how business strategies differ, conditional on the environment. What makes firms invest in new projects and/or expand their existing business operations? Since a business has to enter into contracts with a number of stakeholders such as suppliers, distributors, creditors and employees, it takes into consideration the legal structure of countries, the ease with which explicit or implicit contracts can be enforced, and the (transactions) cost of ex post renegotiation of contracts. We shall discuss all these issues during Weeks 3-5 of the module.

Week 6: Corporate governance

Discussion of contracts between firms and how the related legal frameworks affect business strategies and performance will lead us naturally to the discussion of corporate governance. While the previous weeks considered how regulatory structures affect relations between businesses, here we will explore how regulatory frameworks affect what is going on within a business corporation, and discuss how those corporations respond with adopting specific governance mechanisms. In addition, while the previous chapters stressed transaction costs perspective, here we will focus on post contractual opportunism and agency problems.

Week 7: Constitutions, Federalism and Use of Local Knowledge

In this lecture we will move up from the regulatory to the constitutional level of formal institutions and take a long term view. We will see which constitutional structures lead to efficient use of dispersed knowledge.

Week 8: Transition to a market economy

During Week 8, one of the most illuminating natural experiments in institutional change will be discussed, namely, the process of economic transition to a market based economy from an alternative economic structure in the former command economies of Central and Eastern Europe (and republics of the former Soviet Union). Where applicable, comparisons will be made with other emerging market economies that are also making transitions to market economies from different starting points.

Week 9: Recapitulation on markets and hierarchies

This final lecture will emphasize and combine together several key themes underpinning the course. We will stress both the strong points and limitations of institutional analysis of business environment based on transaction costs approach.

Week 10: Revision

Corporate Connections:

The lectures will draw on cases reported in academic literature, and experiences of developed countries and emerging in the aftermath of economic reforms and major policy changes. In addition, as part of their assessment, students would be expected to utilize firm, sector and/or country-wide data on aspects of the economic environment of business.

International Dimension:

The lectures will use examples from both developed countries, particularly those from Europe and North America, and emerging market economies, with emphasis on the BRICS economies.

Contribution of Research:

The module content will draw significantly on the lecturer's past and present research in the areas of impact of institutional quality and economic policy on strategic decisions and performance of companies and entrepreneurs.

Ethics, Responsibility & Sustainability:

The module focuses on the issues of governance, seen in the context of uncertainty and risk, where uncertainty is introduced not only by environmental factors but also by opportunistic behavior of economic agents. It also refers to organisations and frameworks that affect business.

These issues all provide a context in which issues of ethics, responsibility and sustainability are relevant.

Ethical Approval:

This module does not require any primary research and no ethical approval will be necessary.

Method of Teaching:

The module will use a number of non-technical research papers (some of which are included in the recommended text book) on each of the key issues. Some of these papers (from the main textbook) would be required reading. The lectures would provide the analytical framework, and integrate the required reading would be integrated into this framework. The lectures would also draw on industry and country experiences, as appropriate. Each 2-hour lecture would be followed by a 1-hour tutorial in which student

contribution to the discussion would be encouraged and facilitated. Assimilation of different viewpoints and critical analysis would be encouraged during the course of the lectures and the tutorials.

Method of Assessment and Feedback:

The assessment strategy for this module involves an exam, which will be taken in two parts:

- > A 1,5h open book component, which will link to the questions the students will prepare during the tutorials.
- > A 1,5h long closed book exam (essay questions related to lecture material)

The weighting between the two components will be 50% each

The feedback on the students' performance on the module would be given using a variety of methods such as via Blackboard, or to individuals on request.

Learning Hours:

Lectures	20
Tutorials	9
Contact hours subtotal	29
Research (tutorials topics)	68
Private study (lecture topics)	50
Final Assessment	3
Total	150

The following essential and recommended readings are subject to change. Students should not therefore purchase textbooks prior to commencing their course. If students wish to undertake background reading before starting the course, many of the chapters/readings are available in electronic form via on-line library catalogues and other resources.

Essential Reading:

Recommended Text Book:

Ménard, Claude and Shirley, Mary M. (2008). *Handbook of New Institutional Economics*, Springer.

Weekly Reading List:

Students will be required to read the papers with asterisks against them, knowledge of these papers will be assumed for assessment purposes. In addition, the lectures will draw on other research papers that are also listed below.

Week 1:

- *Ménard and Shirley (2008): Chapter 2 (Coase)
- *Ménard and Shirley (2008): Chapter 12 (Ménard)
- *Ménard and Shirley (2008): Chapter 13 (Joskow)

Week 2:

- *Ménard and Shirley (2008): Chapter 1 (North)
- *Ménard and Shirley (2008): Chapter 24 (Shirley)

Acemoglu, Daron, Johnson, Simon and Robinson, James (2004). Institutions as the fundamental cause of long run growth, Working paper no. 10481, *National Bureau of Economic Research*, Cambridge, Massachusetts. <http://www.nber.org/papers/w10481>.

Barro, Robert J. (1991). Economic growth in a cross-section of countries, *Quarterly Journal of Economics*, Vol. 106, No. 2, pp. 407-443. <http://www.jstor.org/stable/2937943>.

Week 3:

- *Ménard and Shirley (2008): Chapter 9 (Rubin)
- *Ménard and Shirley (2008): Chapter 10 (Arruñada and Andonova)

Posner, Eric (1996). Law, economics, and inefficient norms. *University of Pennsylvania Law Review*, Vol. 144, No. 5, pp. 1697-1744, <http://www.jstor.org/stable/3312637>.

Pagano, Marco and Volpin, Paolo (2001). The political economy of finance. *Oxford Review of Economic Policy*, Vol. 17, No. 4, pp. 502-519, <http://www.london.edu/facultyandresearch/research/docs/pagano-volpin2.PDF>.

La Porta, Rafael, Lopez-de-Silanes, Florencio, Shleifer, Andrei (1998). Law and finance. *Journal of Political Economy*, Vol. 106, No. 6, pp. 1113-1155, <http://www.jstor.org/stable/2990735>.

Week 4:

- *Ménard and Shirley (2008): Chapter 19 (Goldberg)



*Ménard and Shirley (2008): Chapter 27 (Keefer and Knack)

Williamson, Oliver E. (2002). The theory of the firm as a governance structure: From choice to contract. *Journal of Economic Perspectives*, Vol. 16, No. 3, pp. 171-195, <http://www.jstor.org/stable/3216956>.

Holmstrom, Bengt and Roberts, John (1998). The boundaries of the firm revisited. *Journal of Economic Perspectives*, Vol. 12, No. 4, pp. 73-94, <http://www.jstor.org/stable/2646895>.

Ostrom, Elinor (2000). Collective action and the evolution of social norms. *Journal of Economic Perspectives*, Vol. 14, No. 3, pp. 137-158, <http://www.jstor.org/stable/2646923>.

Week 5:

*Ménard and Shirley (2008): Chapter 3 (Williamson)

Williamson, Oliver E. (1981). The economics of organization: The transactions cost approach. *The American Journal of Sociology*, Vol. 87, No. 3, pp. 548-577, <http://www.jstor.org/stable/2778934>.

Williamson, Oliver E. (1990). Transaction cost economics: How it works; where it is headed. *De Economist*, Vol. 146, No. 1, pp. 23-58, doi: 10.1023/A:1003263908567.

Ghoshal, Sumantra and Moran, Peter (1996). Bad for practice: A critique of the transaction cost theory. *The Academy of Management Review*, Vol. 21, No. 1, pp. 13-47, <http://www.jstor.org/stable/258627>.

Week 6:

*Ménard and Shirley (2008): Chapter 14 (Miller)

*Ménard and Shirley (2008): Chapter 15 (Roe)

Tirole, Jean (2001). Corporate Governance. *Econometrica*, Vol. 69, No. 1, pp. 1-35.

Week 7:

*Ménard and Shirley (2008): Chapter 7 (Weingast)

Weingast, Barry (1995). The Economic Role of Political Institutions. *Journal of Law, Economics and Organization*, Vol. 11, No. 1, pp. 1-31.

Week 8:

*Ménard and Shirley (2008): Chapter 26 (Murrell)

Estrin, Saul (2002). Competition and corporate governance in transition, *Journal of Economic Perspectives*, Vol. 16, No. 1, pp. 101-124, <http://www.jstor.org/stable/2696578>.



Some Useful Data References:

Prof. Andrei Shleifer's datasets (legal origins, formal institutions, corporate governance):
<http://www.economics.harvard.edu/faculty/shleifer/dataset>

Freedom House: <http://www.freedomhouse.org/report/freedom-world/freedom-world-2012>

Heritage / Wall Street Journal: <http://www.heritage.org/index/default>

World Bank, Doing Business: <http://www.doingbusiness.org/>