University of Essex

Online

Managerial Economics

Module Code	ME	**NQF level:**	7
Credit Value	10	**Study duration:**	6 weeks

Module description:

The managerial economics module covers two important aspects of organisations: the economics of corporate architectures as well as their governance and control. We apply economic-contracting and transactions-cost approaches to the study of these two aspects of organising.

Though the range of questions that can be covered is broad, we focus on three topical ones: Can we design the contracts of employees, managers, shareholders and bondholders to reduce the disparate tensions that are forever threatening to pull an organisation apart without straight-jacketing them? Are expansion phases merely manifestations of empire-building by top managers or offer real gains in innovation and in human capital? Can we identify excessive risk taking while ensuring suitable risks are not avoided? These merely serve to illustrate but three of a myriad of trade-offs that managers of successful organisations need to make: concepts and tools from economics can provide one guide, and we study these guides.

Organisations operate amongst forces that confine their structures, rules, norms, habits, inertia and momentum. Corporate architecture is an umbrella term for all these forces. The architecture provides guidance, at the same time as imposing restrictions, on how the corporation can be governed. The primary focus, of this course, is on applying the concepts, tools and methods developed within economics towards the coordination and administration of an organisation's activities.

The three-part approach to the economic analysis of architecture is: first, decide who should decide, second, decide the rewards for deciding 'well' and third, decide who has decided 'well'. We have enclosed the word 'well' in quotes – determining what it means to decide 'well' requires agreement on the objective of corporations. I will assume the agreed objective is to maximise the value to the shareholders of the corporation. Nevertheless, deciding a suitable objective for an organisation is a role for political economy and then for corporate law, which brings us naturally to the second important aspect we shall cover - systems of corporate governance.

The notion of governance and control in an organisation is best illustrated by an array of events that occur infrequently in the life of organisations but with large consequences when they do. The topics cover the entire cycle from birth to death. Events such as incorporating a firm (birth), an entrepreneur seeking external capital from banks or venture capitalists (growth), conducting an initial public request for resources and listing on public exchanges (premier league), engaging in mergers and acquisitions (expansion), performing restructuring activities (redirection), and experiencing distress or even ending it all, via liquidation (death). We study the latter three in this module and examine them from the perspectives of contracts and transactions costs.

Sustainable enterprises need to balance risks and returns and choose appropriate trade-offs carefully and corporate governance is a means to achieve a balance between risk levels and return that is sustainable for the organisation and society more broadly. The central question of corporate governance is: In whose interests should a corporation be run? We examine the main corporate governance systems used globally so as to study the different balances between risk and return that underlie them and how these systems differently spread the risk among corporate stakeholders.

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Aims:

We seek to describe and explain the transaction cost approach to understanding the coordination and administration of organised activities. The aims are two-fold. Firstly, we aim to describe the perspectives of contracting (explicit, implicit or incomplete), agency costs and asymmetric information, which are core devices developed in economics, that help garner insights into important resource choices that senior managers cannot but confront if they are to suitably govern their organisations. The larger framework for these choices is the corporate governance system in which the choices are embedded and it is the second aim to describe the political economy associated with the risk distributions among stakeholders of corporations in such systems.

Learning outcomes

On completion of this module, students will be able to:

- employ economic concepts to describe the conflicts of interest inherent in corporations and explain how, in resolving such conflicts, the administration that minimises transactions costs gains competitive advantage;
- describe the control mechanisms that can reduce such conflicts and explain the complementarities among these mechanisms;
- describe the concepts of agency and signalling, as well as, explain how these two concepts help analyse important events in corporate governance and control, such as executive compensation, mergers and acquisitions, reorganisations and liquidations;
- describe the different corporate governance systems prevalent globally and the political economy associated with the different risk distributions among the stakeholders in these broad macroeconomic settings.

Syllabus

- Corporate Governance: Markets, Organisations and Knowledge.
- Markets: Demand, Supply & Equilibrium.
- Markets: Structure, Monopoly, Monopsony, Oligopoly, Competition.
- Markets: Power & Pricing Strategies.
- Economics of Strategy: Value Creation & Competitor Interactions.
- Incentives, Asymmetries, Frictions & Architecture.
- Coordination, Transactions & Agency Costs.
- Decision Rights, Compensation & Evaluation.
- Executive Compensation, Board Structure & Market for Corporate Control.
- Governance Failures, Reorganisations, Distress & Exit.

Learning and teaching methods

This module will be delivered by learning materials provided on the learning platform supplemented by readings. Students also have access to a series of ‘Listen Again’ lectures recorded on campus by Essex Business teaching staff. Tutor support will be available to students via phone, email, and weekly live seminar sessions. Each seminar revolves around a subject case study which links to the same resources used by students in the on-campus programme.

Description of unit of assessment	Length/Duration	Submission Date	Weighting
End of Module Examination (in-class test)	2 hours	End of Unit 5	50%
Individual Essay	2,000 words	End of Unit 6	50%