Study Guide Questions for BADM 545 (Spring, 2024)

Transaction Costs Theory

1. What were Coase's (1937) seminal contributions to "the theory of the firm?"

2. Based on Mahoney (1992) provide some of the advantages and disadvantages of vertical integration. Discuss how the concepts of (1) task programmability; (2) nonseparability in team production; and (3) asset specificity can be used to explain and predict vertical financial ownership.

3. Based on Chi (1994), discuss the antecedents, problems, and remedying mechanisms for trading in strategic resources.

4. Discuss how Argyres and Liebeskind (1999) incorporate history into transaction cost theory. Explain how the concept of "governance inseparability" fits in their theory.

5. Based on Mahoney and Qian (2013) explain how market frictions can be building blocks of an organizational economics approach to strategic management.

6. Based on Cuypers, Hennart, Silverman, and Ertug (2021), explain how the characteristics of the transaction and the organizational governance choice are matched in a predictable way. Be sure to include the dimensions of frequency, uncertainty, opportunism, asset specificity, appropriable quasi-rents, and bargaining costs in your explanation. Discuss. current challenges and potential future research concerning transaction costs theory.

7. Some economists might say that the market and price mechanism are efficient enough to achieve efficient allocation of scarce resources, and thus strategic planning does not add economic value. Evaluate this statement and provide implications for organizational economics and strategic management.

8. It is sometimes maintained that in order to avoid potential difficulties in the transfer of water, hydro-plants should be built near dams. Do the co-location of these assets require co-ownership? Why or why not?

9. According to Chi (1994), Argyres and Liebeskind (1999), and Mahoney and Qian (2013), organizations are means of achieving the benefits of collective action in situations in which there are *severe market frictions*. Discuss the various market frictions that we have focused in this course. Be sure to specify various types of asset specificity, including Masten, Meehan and Snyder's (1991) concept of "temporal specificity." Provide examples for each market friction. What are some ways to mitigate these market frictions?

Transaction Costs: Empirical Findings

10. Consider the research article by Erin Anderson and David Schmittlein (1984) titled: "Integration of the Sales Force: An Empirical Examination"

(a) Explain the theoretical reasoning to support the model specification outlined.

(b) Describe some potential specification problems (e.g., omitted variables, functional forms, multicollinearity, etc.)

(c) Identify any measurement problems that may be present.

(d) Are there any potential econometric identification and/or endogeneity problems? Be sure to explain the meaning of an endogeneity problem.

11. Provide an empirical model of vertical integration, which would combine elements from Anderson and Schmittlein (1984), Walker and Weber (1984), Balakrishnan and Wernerfelt (1986), Masten, Meehan, and Snyder (1991), and Poppo and Zenger (1998), and Zhou and Wan (2017) Be sure to present your reasoning in the following order:

- Provide definitions of all concepts;
- Provided propositions (i.e., causal relationships between concepts);
- Provide hypotheses (i.e., provide causal relationships between empirical constructs)
- Provide the functional form for your empirical testing
- Provide the limitations you see in your research design (i.e., point out potential specification, measurement, and econometric identification problems)

Property Rights Theory

12. Discuss Libecap's (1989) work on *Contracting for Property Rights*. What factors or pressures are identified that can lead to changes in existing property rights? What are some of the implications that are drawn from this framework? Use the oil field unitization example to illustrate these implications.

13. How does North (1990) define "institutions?" What reasoning did North (1981, 1990) provide for providing doubts that property rights would evolve toward efficiency as neoclassical economics predicted?

14. Explain the Coase (1960) theorem and provide an example.

15. Describe Alchian and Demsetz's (1972) team production model. What is meant by non-separability in team production? What can be done to address the problem of "who monitors the monitor?"

16. Explain Grossman and Hart's (1986) theory of property rights. What is the meaning of "ownership" in this theory? How is this definition of ownership different from agency theory (or the classical property rights theory) of Alchian and Demsetz (1972)?

17. Based on Klein et al. (2012), how can property rights theory provide an economic foundation for a stakeholder theory of the firm?

18. Discuss Odziemkowska and Dorobantu's (2021) "contracting beyond the market." Explain their reasoning and empirical findings that when a firm makes site-specific investments, a stakeholder's use rights to the resource sought by the firm, the negative externalities generated by its use, and the stakeholder's capacity for collective mobilization increase holdup risk for the firm and therefore the probability of a contract.

Dynamic Capabilities and Resource-based Theory, and Applications

19. Explain the following concepts from Dierickx and Cool (1989):

- ❖ Time compression diseconomies
- ❖ Asset mass efficiencies
- ❖ Interconnectedness of assets
- ❖ Asset erosion
- ❖ Causal ambiguity

20. What commonalities in logic exist among industry-level, strategic group level, and firm-level (RBV) analysis (see Mahoney and Pandian, 1992).

21. Provide the seminal theoretical contributions of:

- o Barney (1991) and the VRIO framework
- o Peteraf (1993) and the four cornerstones of competitive advantage
- o Teece, Pisano and Shuen (1997) on dynamic capabilities

Can any new insights be gained by joining these perspectives?

22. Based on McGahan (2021), discuss how the resource-based view and the new stakeholder theory of the firm can be integrated.

23. Provide the empirical contributions of:

a. Cohen and Levinthal (1990)
b. Helfat (1997)
c. Farjoun (1998)
d. Pacheco de Almeida et al. (2008)
e. Vidal and Mitchell (2018)

24. Consider the research article by Cynthia Montgomery and Birger Wernerfelt (1988) on "Diversification, Ricardian Rents, and Tobin's Q"

(a) Explain the theoretical reasoning to support the model specification outlined.

(b) Describe some potential specification problems (e.g., omitted variables, functional forms, multicollinearity, etc.)

(c) Identify any measurement problems that may be present.

(d) Are there any potential econometric identification and/or endogeneity problems? Be sure to explain the meaning of an endogeneity problem.

Real Options Theory

25. Real options theory borrows the logic of the financial options literature and suggests that an option has strategic value. However, holding on to options without realizing the economic value will not lead to actual profitability. Suggest a theoretical framework that accounts for the tradeoff between investing to create more options and exercising existing options. How does real options literature (as described by Kogut, 1991; Bowman and Hurry, 1993; Trigeorgis, 1993; Li, James, Madhavan & Mahoney, 2007; and Belderbos, Tong, and Wu, 2020) inform the strategy field? Be sure to include at least the following three options in your discussion: (a) option to wait; (b) abandonment option; and (c) growth option.