BADM 549

**Study Guide Questions**

**Transaction Costs Theory**

**1.** Describe and evaluate Klein, Crawford and Alchian’s (1978) reasoning that vertical integration can be explained and predicted based on the concept of “appropriable quasi-rents of specialized assets.” Discuss the General Motors and Fisher Body example in which economic holdup problems were present. How does vertical integration mitigate such holdup problems?

2. What criticisms regarding transaction cost economics (TCE) does Williamson (1991) try to respond? How does Williamson (1991) address these criticisms? According to this research, transactions are aligned with governance structures, which differ in their costs and competences in a discriminating way. What are key differences among transactions and how are they related to each governance structure (Market, Hybrid, and Hierarchy)? Williamson (1991) suggests four disturbances in the institutional environment leading to changes in equilibrium distributions of transactions. One of them is uncertainty. Describe how parameter changes of uncertainty affect the equilibrium distributions of transactions.

3.. Williamson (1999) suggests joining the governance and competence perspectives. Discuss the governance perspective and indicate key contributions to this perspective. Discuss the competence perspective and indicate key contributions to this perspective. What are some of the tensions and challenges of joining these perspectives?

4. Define “putting out” and “inside contracting systems.” Following Bucheli, Mahoney, and Vaaler (2010) provide transaction cost reasoning for why vertical integration largely replaced these earlier structural alternatives. What connections can be further developed between dynamic capabilities and transaction cost economics by joining Chandler (1977) and Williamson (1985)?

5. Summarize and critique Ketokivi and Mahoney (2020). Discuss transaction cost economics as a theory of supply chain efficiency.

**Transaction Cost Empirical Studies**

6. Argyres, Bercovitz, and Mayer (2007) consider how learning processes are reflected in systematic relationships between contingency planning and task description contractual provisions. What were their empirical findings? How did this research study handle endogeneity problems? What are some of the limitations of this research?

7. According to Parmigiani (2007) why do firms both make and buy? Introduce and compare the predictions of transaction costs economics, neoclassical economics, capability-based view to the choice of concurrent sourcing. In other words, provide a model specification to both explain and predict concurrent sourcing. What were the findings? What are some of the research limitations of this study?

8. What are different perspectives toward unilateral relationship-specific investment from traditional transaction cost economics (TCE) point of view and from an extended TCE point of view? According to Kang, Mahoney, and Tan (2009) why do firms make unilateral sunk cost commitments to other firms? Explain their logic in the context of Taiwan OEM suppliers. Explain the two positive spillover effects considered. What were the findings? What are some of the limitations of this study? This research incorporates real options logic into TCE. What would you suggest as a further contribution in terms of the integration of these two theories?

9. Mayer, Somaya, and Williamson (2012) explore the relationship between knowledge-based capabilities with prior make or buy decisions and buyer-supplier differences in the management of skilled workers. Discuss their model specification, hypotheses, and empirical findings. What is the theoretical contribution of this paper? What are some of the limitations?

10. Lo, Zanarone, and Ghosh (2023) develop a theoretical model that incorporates three key contracting frictions emphasized by transaction cost economics: (1) costly haggling; (2) non-contractible adaptation, and (3) the risk of appropriation of firm-specific resources that preexist the relationship. Unlike previous TCE models that investigate these frictions in isolation, this study explicitly considers how suppliers' choice of specific investment jointly affects haggling, non-contractible adaptation, and resource appropriation. Evaluate the theoretical and empirical contributions of this study.

**Property Rights Theory and Applications**

11. Argyres and Liebeskind (1998) focus on the model of open access as a traditional value of the university as an “intellectual commons” and discuss commercialization via the Bayh Dole Act of 1980 that enabled greater privatization of intellectual property in the context of biotechnology. What arguments do they give to suggest that these alternative discrete structural alternatives may not lead to a successful hybrid? As universities get more dependent on third-party funding, what can be done to prevent conflicts of interest or unethical behavior?

12. Who will monitor the monitor? Explain the difference between the principal-agent shareholder primary model of Alchian and Demsetz (1972) and the Blair and Stout (1999) stakeholder team production model for addressing this question.

13. Describe the “new foundations of corporate finance” that Zingales (2000) outlines. Explain how these foundations might connect to Blair and Stout (1999).

14. Ziedonis (2004) examines the conditions under which an aggressive patent strategy is that alternative mechanism that firms use in order to avoid being “fenced in” by owners of technologies used in the design and manufacture of semiconductor products. What are the theoretical contributions of this paper? Describe the measurement contribution (i.e., constructing a citations-based measure of fragmented markets for technology). What methodologies were used? What were the findings? What are the research limitations of this study?

15. Hoskisson, Gambeta, Green, and Li (2018) provide a recent contribution to the stakeholder literature. What contributions does this article make beyond Blair and Stout (1999)?

**Agency Theory and Applications**

16. Akerlof (1970) explores interaction of quality and uncertainty/asymmetric information. How does this model explain the canonical problem of the large price difference between new cars and those that have just left the showroom? What are some of the counteracting institutional arrangements that might counteract the adverse selection problems?

17. How do Jensen and Meckling (1976) define agency costs? How do they define the firm? How does this definition differ from Coase (1937)? Modigliani and Miller (1958) show, in their (zero transaction cost) model, that the debt/equity ratio will not matter for gaining economic efficiency. Explain then why Jensen and Meckling’s (1976) model shows an optimal ratio of outside equity to debt to gain economic efficiency (i.e., minimize agency costs).

18. Provide three 2X2 games to illustrate: (a) an invisible hand game; (b) a prisoner’s dilemma game; (c) an assurance/coordination game. Discuss the Agarwal, Croson and Mahoney (2010) laboratory experiment, which focuses on the importance of incentive alignment and communication to achieve success in cooperative alliances. What were the findings? What are the limitations of this study?

19. Reuer, Tong and Wu (2012) consider particular “signals” about IPO firms that can impact the premiums they obtain when selling their companies? What hypotheses are provided? What do the data support? What are the limitations of this study?

20. Provide insights gained from Frank and Obloj’s (2014) recent contribution concerning firm-specific capital, organizational incentives, and agency costs.

**Resource-Based Theory and Applications**

21.Discuss Teece’s (1982) economic (efficiency-based) theory of the multiproduct firm. First, provide the transaction cost reasoning of why “economies of scope” explains joint production but not necessarily the “scope of the firm.” Explain how Teece (1982) builds on Penrose (1959) to explain how excess capacity of resources can drive the diversification process. What are the limitations to the rate of the growth of the firm? What is the “Penrose Effect?” More generally, explain how Teece (1982) brings the research literature on market frictions to explain multiproduct diversification.

22. Define the following concepts in Henderson and Clark’s (1990) innovation framework: (a) incremental innovation; (b) modular innovation; (c) architectural knowledge; and (d) radical innovation. According to this theory, what explains the disastrous effects on industry incumbents of seemingly minor improvements in technological products? What were the empirical findings in the photolithography industry? Explain why Kasper Saga failed to adapt to Canon’s innovation. What are the limitations of this empirical study?

23. Silverman (1999) considers how a firm’s resource base affects the choice of industries into which the firm diversifies. Discuss the contributions of this research paper to theory development in joining the resource-based view and transaction cost economics. Discuss the model specification and findings of this paper. What are the limitations of this empirical study?

24. Explain how the Wang, He and Mahoney (2009) paper shows how a firm’s resource base and its governance system jointly influence its economic performance. In particular, discuss how governance mechanisms can mitigate underinvestment in firm-specific human capital, and thereby improve economic performance. What are the empirical findings? What could be the reasons for the negative relationship between stock-ownership and firm-employee relationships in the empirical results in this paper? What are the limitations of this study?

25. Riley, Michael, and Mahoney (2017) provide a recent contribution to the literature on how human capital can matter. Discuss the theory development, empirical testing, and the limitations of the study.

**Real Options**

26. Describe and evaluate the limitations of the quantitative approach to real options as described by Bowman and Moskowitz (2001). Describe the role of real options analysis in strategic planning at Merck.

27. Describe and evaluate the thesis of Kogut and Kulatilaka (2001) that developing capabilities may be considered as real options. In what sense, can the use of real options be considered as a heuristic?

28. Tong and Li (2011) draw from real options theory to compare corporate venture capital (CVC), which involves an investing firm taking a minority stake in a private entrepren- eurial company, and acquisitions empirically. Discuss how real options theory supports the hypotheses developed in this research paper concerning greater uncertainty (H1), greater irreversibility (H2), the greater the level of growth options (H3), and the greater the level of competition (H4). Describe and evaluate the model specification, the methodology (and how endogeneity issues were handled). What are the limitations of the study?

29. According to McCarter, Mahoney and Northcraft (2011), how do collective real options impact the management of social uncertainty in strategic alliance social dilemmas? Be sure to discuss both structural (economic) solutions and (non-economic) motivational solutions. Explain the mechanisms of: (a) how partner reputation enhances the impact of cooperative behaviors on trust development; (b) how relational small wins encourage subsequent larger-scale cooperation in alliances.

30. Trigeorgis and Reuer (2017) provide a recent contribution to the real options literature. What insights do you gain from this article?