The Economics of Public Organizations

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Michaelmas Term, 2008-09

Office Hour:
Michaelmas term: Friday 4-5PM (week 1-5) or by appointment
Lent term: Tuesday 4-5PM or by appointment

In this part of the sequence on Contracts and Organizations, we look at public organizations, namely, organizations that are wholly or partly involved with the production of public goods/services (e.g., schools, hospitals). These can be publicly owned, privately owned or a partnership between the two. We discuss how standard results from contract theory have to be modified in these settings, such as how should incentive contracts be designed when performance cannot be measured well, agents are motivated, how to maintain mission integrity in these organizations given that outcome measures are vague, what happens to incentive contracts when these organizations compete, the role of private non-profit firms, whether extrinsic incentives may crowd out intrinsic motivation, and the role of ownership and property rights. There will be five lectures of 2 hours each for this segment of the course.

Syllabus

- Lecture notes will be posted as we go along.
- (JSTOR) means available via JSTOR
- * means required reading

Background Readings

**Topic 1: Incentive Contracts in the Presence of Measurement problems, multi-tasking, multiple principals, & motivated agents**


**Topic 2: What to do when explicit incentives cannot be used much? The Roles of task assignment, hiring, sorting, non-monetary incentives and supervision.**


**Topic 3: How to motivate the manager when performance cannot be measured? The cost quality trade-off and the problem of mission integrity**

*Besley, T. and M. Ghatak (2006): “Mission Integrity in Public Organizations”, (No draft available: see the lecture notes for the slides)


**Topic 4: Can explicit incentives crowding out intrinsic motivation?**


Topic 5: Who should own public goods? Government vs private ownership, and the role of public-private partnerships


