Syllabus: MGMT 9000 Economic Foundations of Management

Fall 2026

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Overview

This course examines some of the central questions in management with economic approaches as a starting point, but with an eye to links to behavioral perspectives on these same questions. Economics concerns itself with goal directed behavior of individuals interacting in a competitive context. We adopt that general orientation but recognize that goal directed action need not take the form of maximizing behavior, particularly for organizations comprised of individuals with possibly divergent interests and sub-units with distinct objectives. A central property of firms, as with any organization, is the interdependent nature of activity within them. Thus, understanding firms as "systems" is quite important, a perspective which has important implications for understanding processes of organizational adaptation.

Among the sorts of questions we explore are the following: What underlies a firm's capabilities? How does individual knowledge aggregate to form collective capabilities? What do these perspectives on firms say about the scope of a firm's activities? As a "foundations" course, readings will cover key conceptual foundations, but also provide an arc to current work --- an "arc" that will be developed more fully in our in-class discussions.

Assignments

Reaction Papers

For 5 of the 6 class sessions, you are to prepare a brief (roughly three page) reaction paper. This note should convey some provocative reflections on your part on the readings. These reflections may take many forms. They may be organized around some degree of puzzlement at the argument that the author(s) are making. They may reflect on contrasts in the arguments of the various authors. The write-up might identify gaps in the existing literature and, in turn, research opportunities that these gaps present. Alternatively, the note could focus on application and examine ways in which the conceptual material may provide insight into some important phenomena. An additional alternative might be to consider how important empirical phenomena point to gaps and weaknesses in the theoretical ideas. These notes should not merely, or primarily, restate the arguments of the various authors. In writing these notes, you should assume that your audience (us and your classmates) have read the articles associated with that class session with some care and would not be interested in a regurgitation of these ideas, but would be stimulated by a fresh and provocative take on them. Furthermore, your note may draw from a subset of the readings; however, it should be anchored in at least one of the articles. Finally, take a point of view and develop a specific argument. Write-ups that consist of a series of brief, underdeveloped thoughts and ideas are not a useful engagement with the exercise; in contrast, write-ups that develop a reasonably linear argument in which you put forth some original ideas are.

Your reaction papers are to be submitted by **8 am the day of class**. Upload an electronic copy on the course Canvas web site. **No reaction papers will be accepted subsequent to the associated class session. Lastly, please upload these assignments as a Word file (which facilitates me making comments on them).** The papers will receive substantive comments and an overall assessment. That assessment will take the form of a mark of "-", "√", "√ +", "+".

In-Class Discussion

In class, we will discuss the assigned papers and explore the broader conversations in the field of which these papers are a part. Students are expected to participate actively in these discussions. Further, participation should not be restricted to responding to direct questions, but students are encouraged to come to class with their own questions and issues in mind that they wish to share and jointly explore. Students will also be expected to be able to provide a succinct summary and overview of each of the assigned papers should they be called on to do so.

Final exam

There will be an in-class, written final exam to be held on **October 7, 2026**. Details will be provided in class.

Course grade

The course grade will be based on a 50% weight on your reaction papers and 25% class discussion, 25% final exam.

Materials

The readings for the course are available on the course Canvas site. Some readings cannot be uploaded to Canvas and will be given to you directly. The readings for each class session have an internal logical flow and are **best read in the sequence suggested in the syllabus**.

As a foundations course, the readings are often abstract as the aim is to provide you a broad and robust conceptual grounding. Sometimes this abstraction is offered in the form of verbal theory. At other times, the abstraction may be expressed using the language of mathematics or computational modeling. In the latter instances, do not be daunted by that particular "language". Consider the basic assumptions being made and work to understand the underlying intuition of the arguments.

AI Policy
Students can choose from one of two options regarding AI assistance for response papers:

Option 1 ("Traditional"): Students do not use AI in any manner during the process of writing the response paper. This includes for idea generation, writing, or post-writing editing.

Option 2 ("AI Dialogue"): Students use AI in a conversational way to refine their ideas, test them, and generate additional insights. After this dialogue is over, students synthesize the insights and write the response paper themselves. The response paper and the preceding dialogue should be submitted within the submission file to us (appended to the end).

Prohibited: Students must choose one of the two options above. They may not use the AI to write the response paper for them or generate the ideas from scratch (in other words, the students must first generate their own insights and then run it by the AI).

Remember: that you are not taking this class for the grade, per se, but as the launchpad for an academic career. Therefore, reading these papers deeply and internalizing them is much more in your interest than crafting the perfect response paper.

1. **Problem of Goals --- and Goal Alignment** (8/26 - CG)

Read in order:

Simon, H.A., 1991. Organizations and markets. *Journal of economic perspectives*, *5*(2), pp.25-44.

March, J.G., 1962. The business firm as a political coalition. *The Journal of politics*, *24*(4), pp.662-678.

Gibbons, R. (2005) "Incentives between firms (and within)," *Management Science,* 51(1): 2-17.

Holmstrom, B. and Milgrom, P., 1994. The firm as an incentive system. *The American economic review*, pp.972-991.

Holmstrom, B., 1999. The firm as a subeconomy. *Journal of Law, Economics, and organization*, *15*(1), pp.74-102.

2. **Questions of Markets and Hierarchies** (9/2 - CG)

Read in order:

Coase's theory of the firm, The Economist, 2017

Coase, R. (1937). "The nature of the firm". *Economica,* 4(16): 386-405.

Gibbons, R., 2005. Four formal (izable) theories of the firm?. Journal of Economic Behavior & Organization, 58(2), pp.200-245.

Gibbons, R. (2010) "Transaction Cost Economics: Past, Present, Future"

Alvarez, S.A., Zander, U., Barney, J.B. and Afuah, A., 2020. Developing a theory of the firm for the 21st century. *Academy of Management Review*, 45(4), pp.711-716.

Gartenberg, C. and Zenger, T., 2022. The firm as a subsociety: Purpose, justice, and the theory of the firm. *Organization Science*.

How technology is redrawing the boundaries of the firm, The Economist, 2023

3. **Firms as Interdependent Systems** (9/9 – DL)

Read in order:

Simon, H. (1962). "The architecture of complexity". *Proceedings of the American Philosophical Society,* 106: 467-482.

Levinthal, D. (1997). "Adaptation on rugged landscapes". *Management Science,* 43: 934-950.

Roberts, J. (2004). Chapter 2 "Key concepts for organizational design" in *The Modern Firm: Organizational Design for Performance and Growth.* Oxford University Press.

Porter, M. (1996). "What is strategy?" *Harvard Business Review,* Nov.-Dec. 3-20.

Kapoor, R. (2018). Ecosystems: Broadening the locus of value creation. *Journal of Organizational Design*, 7:12.

4. **Organizational Capabilities** (9/16 - DL)

Read in order:

Nelson, R. and S. Winter (1982). "Organizational capabilities and behavior". *An Evolutionary Theory of Economic Change*. Cambridge, MA: Harvard University Press.

Barney, J. (1991). "Firm resources and sustained competitive advantage". *Journal of Management*, 17(1): 99-120.

Bloom, N. and J. van Reenen (2010). "Why do management practices differ across firms and countries". *Journal of Economic Perspectives,* 24(1): 203-224.

Gibbons, R. and R. Henderson (2012). "Relational contracts and organizational capabilities". *Organization Science*: 1350-1364.

Winter, S. (2003). "Understanding dynamic capabilities". *Strategic Management Journal*, 24: 991-995.

5. **Organizations and Knowledge Communities (**9/23 - CG)

Read in order:
Hayek, F. (1945). "The use of knowledge in society". *American Economic Review,* 35: 519-530.

Arrow, K. (1974). *The Limits of Organization*. Chapter 2 "Information and organization" and Chapter 3 "The Agenda of organizations". Norton & Company, New York.

Cohen, W. and D. Levinthal (1990). "Absorptive capacity: A new perspective on learning and innovation". *Administrative Science Quarterly*, 35: 128-152.

Bechky, B. (2003). "Sharing meaning across occupational communities: The transformation of understanding on the production floor". Organization Science, 14(3): 312-330.

Nickerson, J.A. and Zenger, T.R., 2004. A knowledge-based theory of the firm—The problem-solving perspective. *Organization science*, *15*(6), pp.617-632.

Wiesenfeld, B.M. and Kellogg, K.C., 2026. Generative organizational learning: Affordances for new modes of knowledge search, creation, transfer, and forgetting with LLMs. Strategic Organization, 24(2), pp.256-284.

Acemoglu, D., Kong, D. and Ozdaglar, A., 2026. AI, human cognition and knowledge collapse (No. w34910). National Bureau of Economic Research.

6. **Exploration and Exploitation** (9/30 DL)

Read in order:

March, J. (1991). Exploration and exploitation in organizational learning. *Organization Science,* 2: 71-87.

Ederer, F. and G. Manso, G. (2013). "Is pay for performance detrimental to innovation?" *Management Science,* 59(7): 1496-1513.

Adner, R. and D. Levinthal. (2008). Doing versus seeing: Acts of exploitation and perceptions of exploration. *Strategic Entrepreneurship Journal*, 2:43-52.

Aghion, P. and J. Tirole (1997). "Formal and real authority in organizations". *Journal of Political Economy*, Vol. 105(1), pp. 1-29.

Kocak, O., D. Levinthal, and P. Puranam (2023). "The dual challenge of search and coordination for organizational adaptation: How structures of influence matter". *Organization Science*, 34(2): 851-869.

Adner, R. and D. Levinthal (2024). "Strategy experiments in nonexperimental settings: Challenges of inference, interpretation and persuasion. *Strategy Science*, 9: 311-321.