

CCTP 753: The Networked Economy

Syllabus--Spring 2010

Wednesday, 4:15-605

Renolds 130

Office Hours: Tuesday: 2-4

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Synopsis

Over the past several years, the benefits of the networked economy have been given tremendous play by investors, journalists, business school pundits and government officials alike. How little we truly understand the workings of the 'networked economy' were made clear, however, by the recent collapse of the market.

The crash does not belie the fact that we are entering into a new economic era, supported and mediated by advanced networking technologies. To the contrary, most analysts agree that the future growth of the economy will be associated with advances in, and the more widespread diffusion of, networking technologies. What the setbacks do indicate, however, is that the forces driving the networked economy are far more complex than was previously understood.

This course will examine the forces driving the networked economy, and the technological, economic, and political issues to which it will likely give rise. To do so requires an interdisciplinary, evolutionary approach that takes into account the dynamic and indeterminate nature of the economy, as well as the numerous factors that impinge upon economic outcomes. Drawing upon a broad range of theoretical approaches, the course aims to provide students with a framework to better analyze and explain the developments and events associated with the networked economy.

Course Requirement and Grading

This course entails a significant amount of reading of both theoretical and historical materials. Grades will be based on participation in class (30 percent), weekly blogs (30 percent) and a final paper (40 percent). In their blogs (500-700 words), students will be asked to track issues relating to the networked economy, and to discuss how on-going events relate to the themes of the week. Blog topics will be posted on the course blog as well as under course documents each week. Students will also be asked to formulate an abstract (2 pages) for their final paper as a blog entry mid-way through the course. Themes and readings are outlined below.

Required texts:

Ariely, Dan 2008. Predictably Irrational: The Hidden Forces that Shape our Decisions.

Beinhocker, Eric D. The Origin of Wealth, and the Radical Remaking of Economics. Harvard Business School Press. Paperback edition.

Beniger, James R. (1986). The Control Revolution: Technology and the Economic Origins of the Information Society. Cambridge, Harvard University Press. ISBN: 0-674-16986-7.

Brown, John Seely and Paul Duguid (2003). The Social Life of Information. Harvard Business School Press. (ISBN: 0465005500).

Buchanan, Mark. 2003. Nexus: Small Worlds and the Groundbreaking Theory of Networks.

Fligstein, Neal (2001). The Architecture of Markets: An Economic Sociology of the Twenty-First-Century Capitalist Societies. Princeton, NJ: Princeton University Press.

Lazonick, William (1991). Business Organization and the Myth of the Market Economy. New York, Cambridge University Press. ISBN: 0-521 44788-7.

North, Douglas (1999). Institutions, Institutional Change, and Economic Performance. New York, Cambridge University Press.

Scott, Allen J. (2002). The Cultural Economy of Cities. London, Sage Publications. ISBN: 0-7619-5455-4.

(handout) Williamson, Oliver E. (1985). The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting. New York, The Free Press. (Sadly, this book is now out of print).

Schedule of Classes and Reading Assignments

Session One: January 20, 2010

Overview of the Course

In this class we will consider the role of theory in helping us to understand and interpret the economic realm. The past decade has witnessed rapid advances in information-based networking technologies along with their widespread diffusion across the globe and throughout societies. Many contend that these technologies are generating fundamental structural changes in the economy, which will have far-reaching societal repercussions. Others are more sanguine, viewing recent technological developments within the purview of 'business as usual.' How do we anticipate and assess the impact of these technologies? In this session, we will characterize the scope of this problem; identify the pieces of the puzzle that need to be assembled to address it; and survey the analytical tools available to us.

Session Two: January 27, 2010

Defining the Economic Realm

How one assesses the changes associated with the advent of advanced networking technologies depends, in part, on the analytical framework that is employed, and the way in which the realm of the "economy" is defined. In this session, we will examine the neoclassical paradigm, and discuss how its narrow set of parameters can limit our understanding of 'the networked economy.' An alternative socioeconomic approach, which focuses more on the role of networked relationships and social structure in determining economic outcomes, will also be laid out. This approach is not only more encompassing than neoclassical economics. Because of its emphasis on social networks, it also provides us a better analytical frame of reference for determining how technologically based networks might mediate economic outcomes.

Required Readings:

Beinhocker, *The Origin of Wealth*, pp. 3-75. (Ch 1-3) Purchased.

Karl Polanyi, "The Economy as an Instituted Process," in Mark Granovetter, *The Sociology of Economic Life*, posted on blackboard.

Richard Swedberg, "Markets as Social Structure," in Neil J. Smelser and Richard Swedberg, eds. *The Handbook of Economic Sociology*, Princeton University Press 1994), pp. 255-282. (Ch 11). Posted on Black Board.

February 3, 2010- CCT Lecture to take the place of class Time and location will be announced. Attendance will count towards class participation

Session Three: February 10, 2010

Challenging Behavioral Assumptions: Are Economic Agents Really Rational?

Neoclassical economics depends heavily on the assumption that economic actors are inherently rational. However, in recent years a number of researchers, drawing upon the work in psychology and cognitive behavior, and neuroscience have begun to seriously challenge this view of behavior, suggesting that economic actors are far more irrational, as well as socially interconnected, than has previously been assumed. In this class, we will consider the implications of this discovery and how non-rational behavior might be factored into an analysis of the networked economy.

Required Reading:

Dan Ariely 2008. Predictably Irrational: The Hidden Forces that Shape our Decisions. Purchased.

You might also want to read, Mark Buchanan, The Social Atom: Why the Rich Get Richer, Cheaters Get Caught, and Your Neighbor Usually Looks like you. Published by Bloomsbury USA, New York, 2007.

Session Four: February 17, 2010

The Role of Information in Providing Coordination and Control

Because of information's central role in the economy, advances in information technology are likely to have far-reaching repercussions. To identify these, we need first to fully understand the role that information plays in coordinating and controlling the economy. In this session, we shall take an historical look at the different types of social structures that emerged to perform these functions as the economy expanded in size and scope, and production and exchange became more complex. A comparison of these social structures, and an analysis of their consequences for the economy, can provide a basis for anticipating the structures (technological and otherwise) that we may encounter in the networked economy, as well as their likely impacts.

Required Reading:

James R. Beniger, The Control Revolution: Technological and Economic Origins of the Information Society (Cambridge, MA: Harvard University Press, 1988) Chapters 4-8. Purchased

Session Five: February 24, 2010

Information, Transaction Costs, and Organizational Change

As in the case of all important resources, information is not free; nor is it evenly accessible. The information-related costs of doing business are referred to as 'transaction costs.' These costs, and the manner in which they are distributed, have a major impact on economic performance, the use of technology, and the structure and competitiveness of firms. In this session, we will examine the nature of transaction costs; how they come about; and how businesses 'organize' to minimize them.

Required Readings:

Oliver Williamson, The Economic Institutions of Capitalism (New York, NY: The Free Press, 1985), prologue and chapters 1-3. (Handout or will be posted on Black Board)

William Lazonick, "The Theory and History of Capitalist Development," and "The Making of the Market Mentality," Chapters 4 & 5 in Lazonick, Business Organization and the Myth of the Market Economy (Cambridge University Press, 1991). Purchased.

Session Six: March 3, 2010

Knowledge, Innovation, and Competitive Advantage

Organizations are not neutral; their structure is of major consequence. To take advantage of networking technologies, and to maintain competitive advantages, businesses need not only to be efficient. Equally important, they need to employ their knowledge resources effectively to innovate as well as to create barriers to entry. In this session, we will consider how knowledge is generated within an organization, and how innovative firms employ knowledge to control the evolutionary path of their industries.

Required Readings:

William Lazonick, Business Organization and the Myth of the Market Economy (New York, NY: Cambridge University Press, 1994), p. 92-146. Purchased

Clayton M. Christensen, The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail (Boston, MA: Harvard Business School Press) pp. 1-59. On Black Board.

Garcia and Kale, "Technological Advance and the Changing Structure of Transnational Standards Organizations," Paper presented at the 34th Research Conference on Communication, Information and Internet Policy (2006). On Black Board.

March 10, 2010- Spring Break

Session Seven: March 17, 2010

Institutions, Property Rights, and the Rules of the Game

Institutions are critical to the functioning of the economy. They provide the rules of the game, determining not only who economic actors are but

also their rights, obligations, and incentives. In this session, we will consider how institutions affect the organization of economic activities, as well as the performance of the economy. The role that economic actors play in establishing property rights, and in privileging and perpetuating ongoing relationships, will also be addressed.

Required Reading:

Douglas C. North, Institutions, Institutional Change, and Economic Performance (New York, NY: Cambridge University Press, 1990).
Purchased.

Session Eight, March 24, 2010

Networked Technologies as an Agent of Change

To assess the impacts associated with the diffusion of networking technologies, we must have a clear understanding of the nature of network technologies, and how they evolve. As importantly, we must have a complementary and dynamic theory about how economies might evolve in relationship to them. As we have seen, neoclassical economics, with its emphasis on stable equilibrium outcomes, is of little help in this regard.

Required Readings:

Mark Buchanan. 2003. Nexus: Small Worlds and the Groundbreaking Theory of Networks. Purchased.

Christopher Freeman and Francisco Louca, As Time Goes By: From the Industrial Revolution to the Information Revolution (New York, NY: Oxford University Press, 2001), pp. 42-65; 123-51. On Black Board.

March 31, 2010- Easter Brea

Session Nine: April 7, 2010*

Assessing the Impacts of Networked Technologies

To assess the impact of information-based networked technologies, it is useful to think in terms of evolutionary economics, which traces its origins back to Thorsten Veblen and the early institutional economists. Conceiving of technology advance, not as an isolated phenomenon, but rather as one that emerges in a broad socioeconomic and political context,

this approach provides a useful starting point from which to map out the potential ramifications of the networked economy.

Required Readings:

Geoffrey M. Hodgson, "The Evolution of Capitalism from the Perspective of Institutional and Evolutionary Economics," in Geoffrey M. Hodgson, Makoto Itoh, and Nobuharu Kokokawa, Capitalism in Evolution: Global Contentions-East and West, pp. 63-81 (Northampton, MA: Edward Elgar Publishing, Limited, 2001). On Black Board.

Chris Freeman and Cisco Louca, "The Emergence of a New Techno-Economic Paradigm: The Age of Information and Communication Technologies," in As Time Goes By: From the Industrial to the Information Revolution (New York, NY: Oxford University Press, 2001). PP. 301-335. On Black Board.

Thomas W. Malone, Joanne Yates, and Robert L. Benjamin, "Electronic Markets and Electronic Hierarchies," Communication of the ACM, June 1987, v. 30, pp. 487-497). On Black Board.

D. Linda Garcia, "The Architecture of Global Networking Technologies," in Saskia Sassen, ed., Global Networks: Linked Cities (New York, NY: Routledge, 2001), pp. 39-69. On Black Board.

*Post your paper abstract on the blog by the beginning of this class.

Session Ten: April 14, 2010

The Salience of Social Networking

Network technologies will not replace the importance of social networks. To the contrary, they will compliment as well as reinforce the need for them. In this session, we will look more closely at the role that social networks play in fostering trust, knowledge, and competitive advantages.

Required Readings:

John Seely Brown and Paul Duguid, The Social Life of Information (Cambridge, MA: Harvard Business School Press, 2003). Purchased

Session Eleven: April 21, 2010

The Rise of the Networked Firm

The advent of advanced networking technologies has been accompanied by the emergence of a new organizational form—the networked firm. Although networked firms share much in common, they are continuing to evolve in a number of diverse ways, depending on their particular needs and circumstances. In this session, we will consider the shift toward networked organizations and the ways in which they, too, are embedded in and restructure the social context in which they operated.

Required Readings:

Walter W. Powell, "The Capitalist Firm in the Twenty-First Century: Emerging Patterns in Western Europe," in Paul DiMaggio, ed., The Twenty-First Century Firm: Changing Economic Organization in International Perspective (Princeton, NJ; Princeton University Press, 2001), pp. 33-68. On Black Board.

Dieter Ernst, "The New Mobility of Knowledge: Digital Information Systems and Global Flagship Networks," East-West Center Working Papers Economic Series (No. 56, July 2003, pp. 1-39). On Black Board.

Neil Fligstein, The Architecture of Markets: An Economic Sociology of Twenty-First-Century Capitalist Societies. (Princeton, Princeton University Press) Chapters 1-4. Purchased.

Allen J. Scott, The Cultural Economy of Cities (London, UK: Sage Publications, 2000), chapters 1, 7-13. Purchased).

Session Twelve: April 28, 2010

Employing Social Structure for Competitive Advantage

The relationships among economic actors—that is to say, the social structure—affords social capital, which can be used to gain competitive advantage. In this session we will examine the basis of social capital, and consider how firms might employ it strategically.

Nan Lin, "Building a Network Theory of Social Capital," in Nan Lin, Karen Cook, and Ronald S. Burt, eds. *Social Capital: Theory and Research* (New York, Aldine De Gruyter, 2001), p. 3-29. On Black Board.

Ronald S. Burt, "The Social Structure of Competition," in Ronald S. Burt, *Structural Holes: The Social Structure of Competition* (Cambridge, MA: Harvard University Press, 1995), pp. 8-49). On Black Board.

Brian Uzzi, "The Sources and Consequences of Embeddedness for the Economic Performance of Organizations: The Network Effect," *American Sociological Review*, Vol. 61, No. 4. (Aug., 1996), pp. 674-698. On Black Board.

Beinhocker, pp. 141-247. Purchased.

Optional Paper Discussion Session: May 5, 2010
regular class time.