

# **LECTURE 6.4**

## **THE FIRM AS A NEXUS OF CONTRACTS**

# NEXUS OF CONTRACTS

The firm is defined by a set of contractual relationships

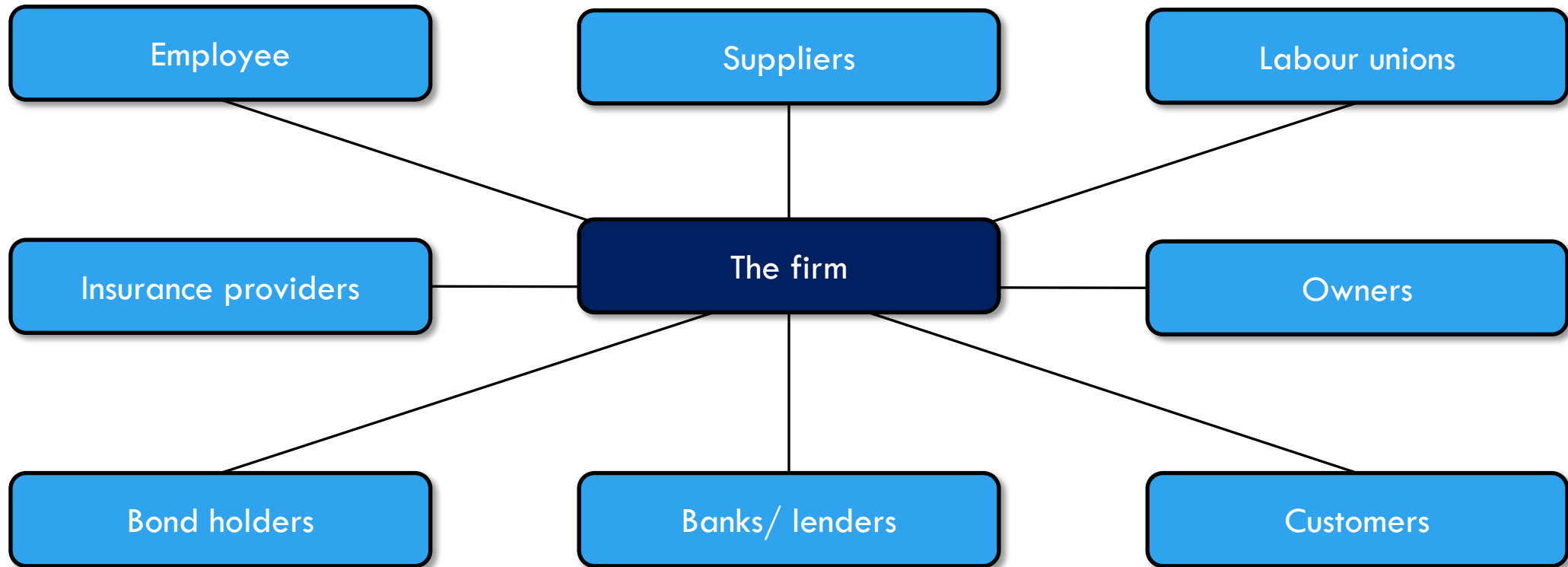
- with employees, suppliers, customers, creditors
- formal legal contracts
- informal/implicit contracts, expectations, and relationships

Think of the firm as a nexus of contracts where the firm is always one of the parties to the contract.

The contracts include both enforceable legal contracts and informal/implicit contracts, expectations and relationships.

- Contracts from an economist's perspective don't need to be '*enforceable legal agreement*' (lawyer's definition).
- Rather think of them as relationships characterised by reciprocal expectations and behaviour. Contracts can be implicit or explicit.

# NEXUS OF CONTRACTS



# NEXUS OF CONTRACTS

Strengths:

- Makes clear that there is a series of relationships that make up the firm

Weaknesses:

- Doesn't necessarily help us understand the scope of the firm or why firms take particular forms.