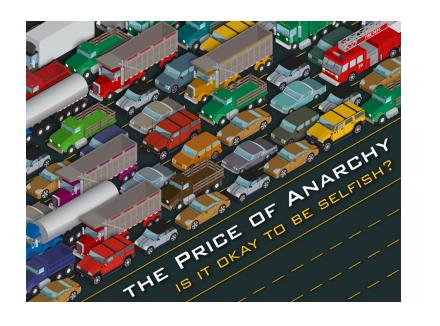
Economic Action and Social Structure: The Problem of Embeddedness

Mark Granovetter 1985

Undersocialized View

- aka anarchy/rationality/utilitarianism
- All agents act rationally and for their own self interests
- Social relations are messy and cause friction within the system







Requirements for an Ideal Market

- 1. All agents have imperfect information
 - No one knows the entire picture
- 2. No two agents have prolonged interaction
 - No social interactions

Oversocialized View

- Behavior is fully constrained by social norms (an external force)
- Obedience is not perceived to be a burden

The oversocialized view is the same as the undersocialized view except the governing rules in the oversocialized view are social norms

ONTINUING DUCATION

Embeddedness

Social relations in modern society play an important role in governing the behavior of people within social networks.

How is it that daily economic life is not riddled with wrongdoing?

- Opportunism by guile or trickery is not suppressed by a selfregulating market.
- How can we avert wrongdoing?
 - Wrongdoing can be averted by mechanisms that make it costly for people to engage in wrongdoing
 - Assume some degree of trust is always present

Embeddedness reduces wrongdoing

- Networks of relations that formulate individual identity
- Preference to conduct transactions with people whom are known
 - History of transactions are important
 - Over time, social relations become stronger and carries more expectation of trust

As a class, we all decide to collude and commit a crime. Unfortunately, we are caught. Each of us has a choice: cooperate or deny. What do you choose?

Trust increases opportunity for wrongdoing

- More trust means more gain from the wrongdoing
 - Ex. Con artists, Theranos
- Force and fraud are most efficiently pursued by teams
 - Ex. Corruption in politics
- Coalitions can cause more disorder than atomic behavior alone
 - The fewer ties between the two groups the more "warlike" it becomes

Transactions in Markets and Hierarchies

Hierarchical

- Within a firm
- Uncertain
- Frequent
- Require substantial transaction-specific investments
 - Money, time, or energy that cannot be easily transferred.

Market Interface

- Between two firms
- Straightforward
- Nonrepetitive
- Require no or little transaction-specific investment
 - E.g. one-time purchase of standard equipment

Repeat Business

- Trustworthy behavior is enforced by group pressure
- Repeat business discourages any party to seek an advantage in a transaction
- Reputation of fairness
- Business relations spill over to social ones

"Be kind to secretaries and the people who work at the front desk"

Conclusion

- Social relations mediate complex transactions and generates a standard of behavior between organizations
- With much trust comes great opportunity for wrongdoing
- You do what your friends do

Side notes:

- Networking is important for your career
- Be nice to support staff

Discussion Questions

- What role does influence play?
 - Some people are more important than others (secretaries/ maintenance)
- The null case
 - What about those who don't really integrate themselves into the network? Are the losing out or is there some status quo where you neither benefit nor loose?
- Popularity vs credibility in the spread of misinformation
 - If the Director of the FBI tweeted that 2FA was good, but Oprah tweeted that it is terrible, who would be believed more?