



Department of Economics and Finance

**ECON\*3400**  
**The Economics of Personnel Management**  
**Fall 2013**



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Instructor: Louise Grogan  
M/W/F 12:30-1:20  
email: lgrogan@uoguelph.ca  
Office Hours: Mondays 2-3pm, or by appointment.

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies, visit:

<http://www.uoguelph.ca/economics/node/1115>

In this course, we examine the management of personnel in organizations. Using concepts from mainstream microeconomics and behavioral economics, we will consider such issues as recruitment, promotion, financial and non-financial incentives, compensation, job performance, performance evaluation, and investment in personnel. The interplay between theoretical models and empirical evidence will be emphasized in considering different approaches to the management of personnel.

The prerequisite for this course is either Intermediate Microeconomics or Industrial Relations. The course will closely follow the textbook "Personnel Economics in Practice" by Edward Lazear and Michael Gibb (2<sup>nd</sup> ed.), supplemented by other important and topical reading material.

The course will be evaluated as follows:

30% Short written assignments. Due dates: Sept. 27<sup>th</sup> 2013 Written Assignment #1 (15%). Nov. 8<sup>th</sup> Written Assignment #2. (15%)

40% 4 Quizzes: Oct. 9<sup>th</sup> 2013 Quiz #1 (10%, in class). Oct. 23<sup>rd</sup> Quiz #2 (10%, in class). Nov. 13<sup>th</sup> Quiz#3 (10% in class). Nov. 20<sup>th</sup> Quiz#4 (10% in class). These quizzes will all consist half of multiple choice and half of written answer questions.

30% final examination Dec. 9, 2013 from 11:30-1:30 pm.

### Course Outline

## **Part 1: Sorting and Investing in Employees**

**Week 1** Setting Hiring Standards, Recruitment  
Chapter 1 in Lazear and Gibbs.

Autor (2001) Wiring the Labor Market *The Journal of Economic Perspectives* 15(1), pp. 25-40.

**Week 2** Investment in Skills  
Chapter 2 in Lazear and Gibbs.

Blundell, Dearden, Meghir, Sianesi (1999) “Human Capital Investment: The Returns from Education and Training to the Individual, the Firm and the Economy”. *Fiscal Studies* 20(1) p.1-23.

**Week 3** Managing job turnover. Promotion and pay over the lifecycle.  
Chapter 3 in Lazear and Gibbs.

Toussaint-Comeau and Meyer (2009) “Strategies for Improving Economic Mobility of Workers: Bridging Research and Practice” Upjohn Institute Press.

## **Part 2: Paying for Performance**

**Week 4** Performance Evaluation  
Chapter 9 in Lazear and Gibbs.

Lazear (1998) “Personnel Economics, Past Lessons and Future Directions” NBER Working paper No. 6957

**Week 5** Rewarding performance  
Chapter 10 in Lazear and Gibbs.

Bandiera, Barankay and Rasul, Imran (2006) “[The Evolution of Cooperative Norms: Evidence from a Natural Field Experiment](#)” *Advances to Economic Analysis & Policy, special issue on Field Experiments*.

**Week 6** Career based Incentives  
Chapter 11 in Lazear and Gibbs.

**Week 7** Options and Executive Pay  
Chapter 12 in Lazear and Gibbs.

**Week 8** Evidence on trends in executive pay

Piketty Thomas and Emmanuel Saez. “The Evolution of Top Incomes: A Historical and International Perspective.” *American Economic Review: Papers and Proceedings*, 96, 2 (May 2006): 200-205.

**Part 3: Real-work experiments to incentivize workers in firms**

**Week 9** Productivity and Pay-for-Performance

Lazear, E. P. (1999). Performance pay and productivity. *American Economic Review*, 90: 1346–1361.

Cadsby, Song and Tapon (2007) “Sorting and Incentive Effects of Pay-for-Performance: An Experimental Investigation,” *Academy of Management Journal*, Vol. 50, No. 2, 387-405.

**Week 10** Rank and Peer Pressure

Tran and Zeckhauser (2009) “Rank as an Incentive,” HKS Faculty Research Working Paper Series RWP09-019.

Cadsby, Engle-Warnick, Fang, and Song (2010) “Social Comparison, Financial Incentives and Risk Attitudes in Tournament-Based Compensation Schemes: An Artefactual Field Experiment,” working paper.

Charness, Masclet, and Villeval (2010) “Competitive Preferences and Status as an Incentive: Experimental Evidence,” working paper.

**Week 11** Cheating, Goals, and Pay-for-Performance

Schweitzer, Ordóñez, and Douma (2004). “Goal-setting as a Motivator of Unethical Behavior.” *Academy of Management Journal*, 47(3): 422–433.

Cadsby, Song and Tapon (2010) “Are you Paying your Employees to Cheat?” *An Experimental Investigation*,” *The B.E. Journal of Economic Analysis and Policy* 10, 1 (Contributions), Article 35, Available at: <http://www.bepress.com/bejeap/vol10/iss1/art35>.

**Part 4: Conclusion**

**Week 12** Review of course materials

You will be asked to complete an evaluation for this course sometime during the last two weeks of classes. The Department of Economics policy regarding the conduct and use of these evaluations can be found at:

<http://www.uoguelph.ca/economics/academics/courses/course-evaluation>

In keeping with the University's Learning Outcomes, the Department of Economics and Finance *Learning Outcomes* (skills and knowledge competencies) for this course are:

**Skills:**

- 1) **Written Communication:** There are two short writing assignments which will be graded with the usual essay writing criteria except for the requirement of a bibliography. The first of these will give students the opportunity to examine public policy about higher education in terms of private and public returns to human capital. The second of these will be invite students to discuss trends in executive pay and to offer theoretical arguments and normative arguments for these trends.
- 2.) **Numerical Problem Solving:** Short answer problems on the four quizzes and multiple choice questions on the quizzes, the midterm and final will test basic computation skills.
- 3) **Analytical Problem Solving:** Much of the course uses **graphical analysis to demonstrate and interpret** various microeconomic models of behaviour.
- 4) **Problem solving in a Real World Context:** Students will **apply** the content of the course to current question in personnel management when they write their two assignments. The assignments are applicable to current labour market and personnel management problems. Marking will reward normative arguments with theoretical substantiation.
- 5) **Professional and ethical awareness and conduct.** Students will use complete each of the two short written assignments themselves. Any external references should be properly cited and bibliographically referenced.

**Knowledge:**

- 1) **Microeconomic Modeling:** As an introductory course in the economics of personnel management, the student must learn to apply standard microeconomic analysis to labour supply and strategic personnel questions. Principal-agent problems will be discussed.
- 2) **Understanding of Specific Markets:** Both the internal labour market of the firm and it's relation to the aggregate labour market are **analyzed** in this microeconomics course.
- 3) **Historical and Global context:** The quizzes and final will pose multiple choice questions which require students to recall **research** papers **read** and **interpreted** during the course. The two assignments will ask students to **construct** an argument about a labour market issue from economic theory and to **formulate** potential solutions to incentive problems.
- 4) **Economic Policy and Regulation:** The role of government is significant in the labour market, perhaps more so than in any other market. Students must **understand** how changes in regulations regarding personnel influence the incentives and constraints of both managers and workers.