COURSE DESCRIPTION

The goal of this course is to use the analytic tools of microeconomic theory to study the worker-firm employment relationship. We will draw from research in labor economics, the economics of organizations, and the emerging field of personnel economics to analyze topics such as the ways in which firms design compensation systems to overcome principal-agent problems; non-monetary compensation and benefits; firm hiring strategies; training, turnover and the theory of human capital; promotion tournaments and other incentive schemes; layoffs and buyouts; team production and diversity in teams; employee ownership; worker empowerment in the form of delegation of authority and worker participation in firm decision-making; and workplace equity. Material will include both theoretical and empirical work, including some recent state-of-the-art research in the area.

Readings:
Required reading for the course is Personnel Economics for Managers (PEM) by Edward P. Lazear, Wiley 1998 (ISBN 0471594660). More advanced, but optional, supplementary material can be found in Personnel Economics (PE), by the same author, MIT Press 2009 (ISBN 0262512947). These books can be purchased at online retailers for a steep discount. I have also placed them on electronic reserve at the DuBois Library. The textbook readings will be supplemented by journal articles from the professional literature, including some cutting-edge research in the labor and organizational economics literature. I will indicate which of these are required in the lectures from week to week.

Prerequisites:
A strong prior knowledge of microeconomic theory is assumed. The prerequisite for the course is Intermediate Microeconomics (Economics 203, Resource Economics 202, or equivalent). Students wishing to brush up or catch up on microeconomic theory should consult one or more of the numerous introductory and intermediate textbooks on the subject. An excellent text is Hal Varian’s Intermediate Microeconomic Theory. Facility with calculus is also assumed. Finally, prior knowledge of statistics and/or econometrics is helpful for the course as a large portion of research in labor and organizational
economics is empirical in nature; a superb reference text is Jack Johnson and John Dinardo’s *Econometric Methods*.

**Course Requirements:**
2 Midterm Examinations (roughly 30% of the grade)
Final Examination (roughly 40% of the grade)
Attendance and Participation (extra credit for borderline grades)

**Practice Homework Problems**
I will periodically distribute practice problems. These problems do not need to be turned in but you are strongly encouraged to work through them as they will help you in preparation for the exams.

**Examinations**
The first midterm will be given on **Thursday September 24, 2020** and the second midterm on **Thursday October 22, 2020**, during class time. Keep these dates in mind, and also the date of the final exam once it is announced by the registrar’s office, when making travel plans. It is your responsibility to be informed about any changes to the exam dates announced in class.

**Course Moodle website:**
I will post announcements, solutions to the homework problems and exams, and other useful material on the course Moodle website. The recurring zoom link for our live lectures and recurring zoom link for office hours will be accessible on the course Moodle website. All students registered for the course have access to this site and should check it regularly. Recordings of our live zoom lectures will also be linked on the course Moodle website after the lecture.

**Procedural Matters:**
**Regrade Policy:** Students may request a regrade of their midterm examinations within 3 days after the examination is returned or, in the case of the final examination, within the first 3 days of the next term that the student is in residence. Such a request must be submitted in writing and must articulate clearly and concisely the point(s) of contention, providing an extraordinarily compelling case that the original grade was faulty. Students should be forewarned that the entire examination will be subject to regrading, not simply the question(s) in contention. The new grade will be immutable and may be higher, lower, or the same as the original grade.

**Attendance:** It is important to attend lectures since material covered in lectures is a complement to, not a substitute for, the material in the readings. Live lectures will be recorded on zoom and linked on the course Moodle website. Students who miss live lecture are responsible for obtain missed materials from the zoom recordings or other students in the class.
Students with Special Needs: Students with special needs must have the relevant university officials contact the instructor immediately to determine the appropriate reasonable accommodation. It is the student’s responsibility to ensure that the instructor has been notified promptly and to respond quickly to any inquiries she makes.

COURSE OUTLINE AND READINGS

I. INTRODUCTION

PEM: Chapter 1, Chapter 13 (pp. 358–365)


II. THE PRINCIPAL-AGENT PROBLEM: OPTIMAL PIECE RATES

PEM: Chapter 5, Chapter 13 (pp. 354-358, pp. 365-368), Chapter 3 (“Contingent Contracts” middle of 49 to middle of 50, “Monitoring Costs and Workers: Sorting in More Detail” 56-62, Appendix “Salaries and Piece Rates” 68-71. Note: The Appendix reading is optional.)


### III. TRADE-OFF BETWEEN RISK (OR UNCERTAINTY) AND INCENTIVES


### IV. NON-MONETARY COMPENSATION AND INCENTIVES

PEM: Chapters 14, 15
PE: Chapter 6 (57-62)


### V. HIRING THE RIGHT TYPE OF WORKERS

PEM: Chapter 2

VI. PROMOTIONS AS INCENTIVE MECHANISMS

PEM: Chapters 9, 10


VII. PROMOTIONS AS JOB ASSIGNMENT MECHANISMS


**VIII. TRAINING, TURNOVER, LAYOFFS AND BUYOUTS**

PEM: Chapter 6; Chapter 7 inserting “An additional Example of Adverse Selection” (64-66) in the middle of page 189, immediately before “Implementation”


**IX. SENIORITY-BASED INCENTIVE SCHEMES**

PEM: Chapter 11
PE: Chapter 4


X. INFORMATION, SIGNALING, AND POACHING

PEM: Chapter 8, Chapter 13 “Retaining Critical Workers” (369-371)

XI. TEAM PRODUCTION

PEM: Chapter 12


Hall, Brian J., and Kevin J. Murphy, “The Trouble with Stock Options”, *Journal of Economic Perspectives*, Volume 17, Number 3 (Summer 2003), pp. 49-70.


**XII. EMPLOYEE PARTICIPATION AND OWNERSHIP**

PEM: Chapter 18


**XIII. AUTHORITY STRUCTURE OF JOBS**

PEM: Chapter 16 (Appendices are optional)  
PE: Chapter 7

**XIV. INCENTIVES WITH MULTIPLE TASKS AND JOB DESIGN**

PEM: Chapter 16 (especially material on multi-skilling)


**XV. PERFORMANCE EVALUATIONS**
PEM: Chapter 17, Chapter 13 (345-353)


XVI. OUTSOURCING

PEM: Chapter 13 (345-353)

XVII. ENTREPRENEURSHIP

