

MANAGERIAL ECONOMICS II: PERSONNEL ECONOMICS

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| Instructor | Jasmin Kantarevic |
| Class Meetings | Tuesdays and Thursdays, 5-8pm, Room RW (Ramsay Wright) 117 |
| Course Web Site | www.jasminkantarevic.com/eco381 |
| Office Hours | Tuesdays, 7-8pm, and by appointment |
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Course Content and Objectives

The main objective of this course is to provide you with a set of tools to design, evaluate, and compare alternative incentive models such as piece rates, team-based compensation, tournaments, deferred compensation, and models based on non-financial incentives.

Course Material

All material related to the course will be posted on the course website. This material is based in part on the following three textbooks:

1. Lazear, Edward P. (1995) *“Personnel economics”* (MIT)
2. Garibaldi, Pietro. (2006) *“Personnel economics in imperfect labour markets”* (Oxford)
3. Milgrom, Paul R., and Roberts, John. (1992) *“Economics, organization, and management”* (Prentice-Hall)

For a less technical textbook presentation, see Lazear (1998), “Personnel Economics for Managers”. For a more advanced review, see Prendergast (1999), “The provision of incentives in firms”, *Journal of Economic Literature*, pp. 7-63.

The course material includes a set of ten assignments, with detailed worked-out solutions, posted on the course website. These assignments are not graded, but serve to prepare you for the graded components of the course (midterms and final exam).

Prerequisites and Exclusions

Prerequisites for this course are ECO200Y1/ECO204Y1/ECO206Y1; ECO220Y1/ECO227Y1/(STA247H1,STA248H1)/(STA250H1,STA255H1)/(STA257H1,STA261H1). Prerequisites are strictly checked and enforced and must be completed before taking a course. By taking this course you acknowledge that you will be removed from the course at anytime if you do not meet all requirements set by the Department of Economics. Exclusions: ECO370Y1,426H.

Grade Allocation

| | Weight | Date | Duration |
|-----------|-----------|---------|------------|
| Midterm 1 | 20 or 30% | June 2 | 50 minutes |
| Midterm 2 | 20 or 30% | June 16 | 50 minutes |
| Final | 50% | TBD | 2 hours |

Midterms

The better midterm counts out of 30, while the worse midterm counts out of 20.

Missed Midterms

Midterms are not optional. If you miss a midterm test, you must provide appropriate documentation within one week of the actual midterm. The appropriate documentation is an original University of Toronto Medical Certificate (not scanned, copied, or e-mailed) that is fully completed by a medical doctor, including the doctor's OHIP registration number. Retroactive notes (i.e., student claims to have been sick on the day of the test, but met doctor at a later date) or notes that indicate that the student would have performed "sub-optimally" will not be accepted.

If you provide the appropriate documentation, your other midterm counts out of 30 and your final exam counts out of 70. There is no make-up test if you miss one midterm only.

Make-Up Test

If you miss both midterms and provide appropriate documentation in timely manner, you will have the opportunity to write a make-up test on June 23. This test will cover all course material up to and including material presented on June 14. The make-up test counts out of 50 and the final exam counts out of 50. If you miss the make-up test, there will be no other make-up test and your final exam will count out of 50.

Re-grading Policy

An appeal for a re-grade must be typed (on paper, not e-mail) in great detail. You must specify exactly which item you believe was marked incorrectly, what you believe was marked incorrectly, what you believe your mark on that item should be, and why. To be considered, appeals must be turned in to me within one week of the date the midterm is handed back. You will then receive a written explanation of whether your request was granted or not and why.

Academic Misconduct

Students should note that copying, plagiarizing, or other forms of academic misconduct will not be tolerated. Any student caught engaging in such activities will be subject to academic discipline ranging from a mark of zero on the assignment, test or examination to dismissal from the university as outlined in the academic handbook. Any student abetting or otherwise assisting in such misconduct will also be subject to academic penalties.

Tentative Class Plan

| Class | Topic | Textbooks | Readings* |
|---------|--------------------------|-----------------------|-----------|
| May 17 | Introduction | | |
| May 19 | Basic Incentive Contract | | |
| May 24 | Incentives and Insurance | | |
| May 26 | Risk Averse Agent | Garibaldi, pp.100-104 | |
| May 31 | Risk Neutral Agent | Lazear, pp. 13-19 | 1 |
| June 2 | Multiple Signals | Milgrom, pp. 214-221 | 2 |
| June 7 | Multiple Tasks | Milgrom, pp. 214-221 | 3 |
| June 9 | Subjective Evaluation | Bol, pp. 1-27 | 4 |
| June 14 | Teams | Lazear, pp. 47-51 | 5 |
| June 16 | Tournaments | Lazear, pp. 25-37 | 6 |
| June 21 | Dynamic Contracts | Lazear, pp. 39-42 | 7 |
| June 23 | Non-Financial Incentives | Fehr, pp. 2-34 | |

* Readings

Students are responsible for pages in square brackets after each reading.

1. Shearer, Bruce (2004) "Piece rates, fixed wages and incentives: evidence from a field experiment", *Review of Economic Studies*, 71, 513-534 [Sections 2-4, except 4.1].
2. Gibbons, Robert, and Kevin J. Murphy (1990) "Relative performance evaluation for chief executive officers", *Industrial and Labor Relations Review*, 43(3), 30S-51S [Section: Relative Performance and CEO Compensation, 36-42]
3. Hannaway, Jane (1992) "Higher order skills, job design, and incentives: an analysis and proposal", *American Educational Research Journal*, 29(1), 3-21 [All].
4. Kerr Steven (1975) "On the folly of rewarding A, while hoping for B", *Academy of Management Journal*, 18(4), 769-783 [769-775].
5. Knez Mark and Duncan Simester (2001) "Firm-wide incentives and mutual monitoring at Continental Airlines", *Journal of Labor Economics*, 19(4), 743-772 [Section II].
6. Becker Brian E. and Mark E. Huselid (1992) "The incentive effects of tournament compensation systems", *Administrative Science Quarterly*, 37, 336-350 [336-344].
7. Gunderson Morley and James Pesando (1988) "The case for allowing mandatory retirement", *Canadian Public Policy*, XIV(1), 32-39 [All].