

ECO 381S (2018): PERSONNEL ECONOMICS

Instructor: Prof. Arthur J. Hosios
150 St. George St., Rm 178
Lectures: Wednesday 10-12, SS1083
Problem solving classes: Friday 2:30-3:30, SS1083
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This course examines the economics of human resource management and compensation practices.

Prerequisites: ECO 200/204/206; ECO 220/227 (or STA equivalent)

Exclusion: ECO 370

Lecture Topics, Reading Assignments and Problem Sets

This course outline is available in the **Syllabus** file in Blackboard. The **Course Materials** file in Blackboard is divided into 3 sub-files: (i) **Assignments**; (ii) **Readings**; and (iii) **Problem Sets**.

On a lecture-by-lecture basis, the Assignments subfile describes the assigned readings and problems. The readings (listed below) are available in the Readings subfile. Students are responsible for the material described in square brackets following each reading (some changes in the assigned readings may be made during the course as per the Assignments subfile). Students are responsible for all assigned readings; a subset of the assigned readings will be discussed in lectures.

Questions based on each reading are available in the Problem Sets subfile; a subset of these questions will reappear on the term test and the final examination. Only try the assigned problems (as described in the Assignments subfile).

Answers to problem sets are not publicly available; the instructor will, however, review answers to the problem set questions during lecture breaks, problem solving classes and office hours.

Among the readings, Lazear (1998) is short for E. Lazear (1998) *Personnel Economics for Managers* (Wiley).

0. Background

Varian, H. (1987), "Mathematical Appendix," Appendix in *Intermediate Microeconomics*, 4th Edition, Norton

Pindyck, R. & D. Rubinfeld (1995), "The Basics of Regression," Appendix in *Microeconomics*, 3rd Edition, Prentice Hall

Wooldridge, J. (2009), Brief excerpts on Logit, Probit and Tobit models, pp. 575-77 and 587-89 in *Introductory Econometrics: A Modern Approach*, 4th Ed., Southern-Western.

1. Hiring

- Lazear (1998), "Setting Hiring Standards," Chap. 2 [9-25, 34-36]
Notes on Comparative and Absolute Advantage
Lazear (1998), "Hiring the Right People," Chap. 3 [49-62, 67-69]
Lazear (1998), "Learning a Worker's Productivity," Chap. 4 [75-81, 87-94]
Brown, C. (1990), "Firms' Choice of Method of Pay," *Industrial and Labor Relations Review*, 43 (Feb Special Issue): 165S-182S. [all]

2. Training

- Barron, J, M. Berger and D. Black (1997), "On-the-Job Training as an Investment in Human Capital," Chapt. 1 in *On the Job Training* by J. Barron, M. Berger and D. Black (W.E. Upjohn Inst. for Employment Research, Kalamazoo). [all]
Bartel, A. (1995), "Training, Wage Growth and Job Performance," *Journal of Labor Economics* 13(3): 401-425. [all]
Lynch, L. and S. Black (1998), "Beyond the Incidence of Employer-Provided Training," *Industrial and Labor Relations Review* 52 (1): 64-81. [all]

3. Pay-For-Performance

- Lazear (1998), "Variable Pay and Straight Salary," Chap. 5 [98-105, 112-118]
Milgrom, P. and J. Roberts (1992), "Risk Sharing and Incentive Contracts," Chap. 7 in *Economics, Organization and Management* (Prentice Hall). [211-227]
Holmstrom, B. (1999), "The Firm as a Subeconomy," *Journal of Law, Economics, and Organizations*, 15:74-102. [90-91]
Gibbons, R. and K. Murphy (1990) "Relative Performance Evaluation for Chief Executive Officers," *Industrial and Labor Relations Review*, 43: 30S-51S. [36S-39S]
Lazear, E. (2000), "Performance Pay and Productivity," *American Economic Review*, 90(5):1346-61. [1346-55]

4. Promotions

- Lazear (1998), "Promotions as Motivators," Chap. 9 [252-256, 243-251]
Baker, G., M. Gibbs and B. Holmstrom (1993), "Hierarchies and compensation: A case study," *European Economic Review* 37: 366-378 [all]
Gibbs, M. (1995), "Incentive Compensation in a Corporate Hierarchy," *Journal of Accounting & Economics* 19: 247-277. [all]

5. Peers and Teams

- Kandel, E. & E. Lazear (1992), "Peer Pressure and Partnerships," *Journal of Political Economy* 100, 801-817 [801-809]
Hamilton, B., Nickerson, J and H. Owan (2003), "Team Incentives and Worker Heterogeneity: An Empirical Analysis of the Impact of Teams on Productivity and

Participation,” *Journal of Political Economy* 111, 465-497 [all]
Knez, M. and D. Simester (2001), “Firm-Wide Incentives and Mutual Monitoring at Continental Airlines,” *Journal of Labor Economics* 19 (4): 743-772. [all]

6. Job Design and Performance Measures

Milgrom, P. and J. Roberts (1992), "Risk Sharing and Incentive Contracts," Chap. 7 in *Economics, Organization and Management* (Prentice Hall). [228-231]
Lecture Notes on Multitasking – Individual and Team Work
Gibbons, R. (2004), “Agency Theory,” mimeo [9-16]
Levy, F. and R. Murnane (2004), “How Computers Change Work and Pay,” Chap 3 in *The New Division of Labor: How Computers are Creating the Next Job Market* (Princeton, Princeton University Press)

7. HRM Synergies

Milgrom, P. & J. Roberts (1995), “Complementarities and fit: Strategy, structure and organizational change in manufacturing,” *Journal of Accounting and Economics*, 19, 179-208 [199-205]
Ichnioski, C., K. Shaw and G. Prenzushi (1997), “The Effects of Human Resource Management Practices on Productivity: A Study of Steel Finishing Lines,” *American Economic Review* 87: 291-313. [291-305]

Rules of the Game: There will be one 2-hour mid-term test after the first 5 lectures that counts for 35% of the final course grade. The mid-term test will be held during class on February 14th in the classroom. The 3-hour final exam counts for 55% of the final course grade and will cover the material after the break.

Problem sets: Let N denote the number of problems assigned during the course (at this time, I’m not sure what value N will take). If you submit answers to M of these problems, your grade at the end of the course will be increased by M/N times 10% (submitted problems will not be marked but will be discussed during the problem-solving class).

Office hours and problem solving classes will not start until the week of January 15th.

There will be a review class before the mid-term test on Feb. 13th 6-8pm, Room 106, Department of Economics, 150 St. George Street. There will also be a review class before the final exam (date currently unknown).

Students who miss the term test should contact the instructor prior to the next class and explain the reason for missing the test; appropriate documentation (a medical certificate or college registrar's note) must subsequently be submitted. Students with a valid reason for missing the test will arrange to write a make-up test prior to the next class.