

Personnel Economics

Spring 2014

Instructor: Li Yu

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Xue Shu Hui Tang 610 (CHLR)

Time and Location: T, TR 10:10am-12:00pm, MIB 313

Office Hours: W 2:30-5:30pm or by appointment.

Teaching assistant: TBA

Textbook: * denotes required materials.

- *Lazear, Edward P. (1995) Personnel Economics (MIT);
- *Lazear, Edward P. and Michael Gibbs (2008) Personnel Economics in Practice (John Wiley & Sons).

Description of the Course: This course mainly uses economic tools to better understand human capital issues in business firms. A wide range of topics and issues will be covered throughout the semester. The subjects to be discussed include productivity and performance measurement, compensation schemes, teamwork, worker sorting, hiring standards, employee evaluation programs and entrepreneurship. We will study economic theories catered to business organizations and relate them to empirical analysis.

Grading: There will be three exams, one presentation. They will count toward the grade as follows.

<i>Items</i>	<i>Percentage</i>
Exam 1	35%
Exam 2	35%
Presentation	10%
Essay	20%
Total	100%

Presentation: Presentations are tentatively scheduled in the last two weeks of the course. Two students as a group, present one paper. I will pick 8 papers related to the topics covered in this course. Each group is required to present a selected paper. Each presentation is 30-40 minutes long with 5-10 minutes own comments. All students are required to read the paper before presentation. Comments, critics, questions and discussion are encouraged, which are also associated with your participation. We will adopt peer review and peer grading.

Exams: Exams are tentatively scheduled on April 3rd and May 29. Exams emphasize the most recent contents. In case that you are unable to take an exam at the scheduled time, please contact me ahead of exam days. Otherwise, failure to attend an exam will result in zero scores on the exam. If the absence is

excusable, I will schedule an alternate time for the exam. Except that the absence is due to emergency, choosing to take exam in alternative time will result in a 20% discount of total score.

Essay

Each student is required to write a small essay by the end of the course. The topic should be related to the personnel economics. The main purpose of the essay is to identify an interesting problem in the workplace or in our everyday life and to propose a method to propose a solution. The main structure includes the motivation, literature review, methodology, data and econometric models.

Topics and readings: (* denotes required materials)

1. Introduction to Personnel Economics

- * Lazear (1995).
- *Personnel Economics: Past Lessons and Future Directions," *Journal of Labor Economics* 17:2 (April 1999): 199-236.
- * Edward P. Lazear and Kathryn L. Shaw. 2007. Personnel Economics: The Economist's View of Human Resources. *The Journal of Economic Perspectives* 21(4).
- "The Future of Personnel Economics," *Economic Journal* 110:467 (2000): F611-39. 1995.

2. Hiring and screening

- *Lazear and Gibbs (2008), Chapter 1,2.

3. Human capital, on the job training and investment in skills

- *Lazear and Gibbs (2008), Chapter 3.
- Rosen, Sherwin. 1983. "Specialization and Human Capital." *Journal of Labor Economics* 1: 43-49.
- Becker, G. Human Capital.: A theoretical and empirical analysis with special reference to education. 3rd edition. The University of Chicago Press. 1993.

4. Worker compensation: Fixed or variable pay?

- *Lazear(1995), Chapter 2.
- * Lazear and Gibbs (2008), Chapter 10.
- *Lazear, Edward. 2000. "Performance Pay and Productivity." *American Economic Review* 90: 1346-1361.
- Lazear, E (1986), "Salaries and Piece Rates", *Journal of Business* 59: 405-431.

5. Relative compensation, Tournament and Promotions

- *Lazear(1995), Chapter 2.
- * Lazear and Gibbs (2008), Chapter 11.
- Lazear and Rosen, 1981. Rank-order tournaments as optimum labor contract. *Journal of Political Economy* 89: 841-64.
- *Ronald Ehrenberg and Michael Bognonno. 1990. "Do tournaments have incentive effects?" *Journal of Political Economy* 98(6).

- *Knoeber Charles. 1989. "A real game of chicken: Contracts tournaments and production of Broilers". *Journal of Law, Economics and Organization*.
- Lazear, Edward. "Pay Equality and Industrial Politics." *Journal of Political Economy* 97. 1989.
- Taylor Beck and Trogdon Justin. 2002. "Losing to win: Tournament incentives in the NBA." *Journal of Labor Economics*.

6. CEO Compensation

- * Lazear and Gibbs (2008), Chapter 12.
- * Michael Bognanno . "Corporate Tournament". *Journal of Labor Economics* 19(2) 2001.
- *Tor Eriksson. "Executive Compensation and Tournament Theory: Empirical Tests on Danish Data" . *Journal of Labor Economics*, Vol. 17, No. 2 (Apr., 1999), pp. 262-280.
- Main, Brian; O'Reilly, Charles, III; and Wade, James. "Top Executive Pay: Tournament or Teamwork?" *Journal of Labor Economics* 11 (June 1993): 606-28.
- * Kevin J. Murphy. "Executive Compensation". Working paper.

7. Team

(a) Peer Pressure

- *Lazear (1995), Chapter 4.
- *Lazear and Gibbs (1998), Chapter 12.
- *Kandel, Eugene & Lazear, Edward P, 1992. "Peer Pressure and Partnerships," *Journal of Political Economy* 100(4): 801-17.

(b) Labor-Managed Cooperatives

- *Lazear and Gibbs (1998), Chapter 12.
- *Ben-Ner, Avner. 1884. "On the Stability of the Cooperative Type of Organization," *Journal of Comparative Economics* 8: 247-60.

(c) Sorting

- *Kremer, Michael. "The O-Ring Theory of Economic Development." *Quarterly Journal of Economics*. 108 (August 1993): 551-575.
- Iranzo Susana etc. 2008. "Skill dispersion and firm productivity: An analysis with employer-employee matched data". *Journal of Labor Economics*.

8. Life-incentive compensation

- *Lazear (1995), Chapter 5.
- * Lazear and Gibbs (2008), Chapter 11.
- *E Barth (1997), "Firm-Specific Seniority and Wages", *Journal of Labor Economics*, Vol. 15.

9. Other compensation related issues: non-pecuniary benefit

- *Lazear (1995), Chapter 6.
- * Lazear and Gibbs (2008), Chapter 13.
- Olson, Craig A. "Do Workers Accept Lower Wages in Exchange for Health Benefits." *Journal of Labor Economics* 20 (April 2002): S91-S114.
- Yu, Li and Yongjie Ji. "' Do Large Firms with More Technologies Pay More?" working paper.

10. *Entrepreneurship and intrapreneurship*

- *Lazear, Edward P. "Entrepreneurship." *Journal of Labor Economics* (October 2005): 649-680.
- *Evans, D and L Leighton (1989). "Some Empirical Aspects of Entrepreneurship". *American Economic Review* 79, pp. 519-535.
- Lazear, E (2004). "Balanced Skills and Entrepreneurship". *American Economic Review* 94(2). pp. 208-211.
- Peter F. Orazem, Li Yu and Robert W. Jolly. "Bachelor's Degrees and Business Start-ups: A Reexamination of Lazear's Theory of Entrepreneurship". Working paper.
- *Lazear and Gibbs (2008), Chapter 14.

11. *Job and job evaluations*

- * Lazear (1995), Chapter 7, 8.
- *Lazear and Gibbs (2008), Chapter 9.

12. *Institutions*

- *Lazear (1995), Chapter 9.

Academic Dishonesty: Academic dishonesty, once coming up, will be dealt with according to university's academic dishonesty policy.