

UNIVERSITY OF TORONTO  
DEPARTMENT OF ECONOMICS  
ECONOMICS 381H1S – SUMMER 2009

**MANAGERIAL ECONOMICS II: PERSONNEL ECONOMICS**

Instructor	Jasmin Kantarevic
Class Meetings	Tuesdays and Thursdays, 5-8pm, Room WO 35.
Course Web Site	<a href="http://www.jasminkantarevic.com/eco381">www.jasminkantarevic.com/eco381</a>
Office Hours	Tuesdays, 7-8pm, and by appointment
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**Course Content and Objectives**

This course is about how people get paid and what difference does it make. The main objective of the course is to provide you with a set of tools to design, evaluate, and compare alternative incentive models such as piece rates, teams, tournaments, deferred compensation, and models based on non-financial incentives.

**Course Material**

All material related to the course is posted on the course website. The following textbooks are also placed on the library reserve:

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.

**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, MGT310Y.

## Grade Allocation

	Weight	Date	Duration
Midterm 1	10 or 30%	July 14	50 minutes
Midterm 2	10 or 30%	July 28	50 minutes
Research Paper	20%	July 30	-
Final	40%	TBD	2 hours

### *Midterms*

The better of two midterms counts as 30, while the worse midterm counts as 10. There are no make-up midterms. If the student misses one midterm, the other midterm counts as 20 and the final counts as 60. If the student misses both midterms, the final counts as 80. Midterms are not optional. Students who miss a midterm test need to provide me with appropriate documentation (a medical certificate or college registrar's note) within one week after the actual midterm.

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.

### *Research Paper*

Students are encouraged to form groups of 2 to 4 students and present a single research paper for the group. All students in the group will receive the same grade. The paper focuses on designing a compensation model for a specific real-life incentive problem, such as how to design a course syllabus to provide incentives to students to become life-long learners. More details about the research paper will be presented in the class. To assist you with development of your research paper, we will have workshops each Thursday during regular class hours, except during the first and last week of the class.

## 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.

## Lecture Plan

Class	Topic	Textbooks	Readings*
June 30	Introduction to Optimal Compensation		
July 2	Salary Model		
July 7	Piece Rate Model – Theory	Lazear, pp. 13-19 Garibaldi, pp. 82-98	
July 9	Piece Rate Model – Evidence		1
July 14	Piece Rate Model – Risk Aversion	Garibaldi, pp.100-104	
July 16	Relative Performance	Milgrom, pp. 214-221	2
July 21	Subjective Evaluation		3, 4, 5
July 23	Tournaments	Lazear, pp. 25-37 Garibaldi, pp. 132-138	6
July 28	Teams	Lazear, pp. 47-51 Garibaldi, pp. 218-222	7
July 30	Efficiency Wages and Deferred Compensation	Lazear, pp. 39-42 Garibaldi, pp. 146-151	8, 9
Aug 4	Psychological Foundations of Incentives		10
Aug 6	Review		

### \* 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. Kerr Steven (1975) "On the folly of rewarding A, while hoping for B", *Academy of Management Journal*, 18(4), 769-783 [769-775].
4. Hannaway, Jane (1992) "Higher order skills, job design, and incentives: an analysis and proposal", *American Educational Research Journal*, 29(1), 3-21 [All].
5. Bol, JC. (2005) "Subjective Performance Evaluation", AAA Management Accounting Section (MAS) 2006 Meeting Paper [All].
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. 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].
8. Raff Daniel M.G. and Lawrence H. Summers (1987) "Did Henry Ford pay efficiency wages?" *Journal of Labor Economics*, 5(4) pt. 2, S57-S86 [All].
9. Gunderson Morley and James Pesando (1988) "The case for allowing mandatory retirement", *Canadian Public Policy*, XIV(1), 32-39 [All].
10. Fehr, Ernst and Armin Falk. (2002) "Psychological Foundations of Incentives", IZA Discussion Paper No. 507. [TBD]