

**Department of Economics
University of Toronto at Mississauga**

ECO381H5: Managerial Economics II: Personnel Economics
DH 2080, Thursday 3:00-5:00pm
Fall 2017

Professor: Xianwen Shi
UTM Office: Innovation Complex KN 3232
Office Hours: Thursday 11:15-12:30pm
Office Phone: 905-569-4719
Email: xianwen.shi@utoronto.ca
Course Webpage: <http://portal.utoronto.ca> (Blackboard)

Teaching Assistant: Ruizhi Zhu, rz.zhu@mail.utoronto.ca

Course Description

This course examines selected material on compensation and incentives in hierarchical organizations. Topics include recruitment and hiring, training, turnover, downsizing, motivating workers, teams, allocating authority and task assignment.

Prerequisites and Exclusions

Prerequisites:

ECO(200Y5/204Y5/206Y5), ECO(220Y5/227Y5)/STA(250H1,257H5/256H5)/
STA(257H5/256H5,261H5/260H5)/STA(257H5/256H5,248H5/258H5)

Exclusions:

ECO370Y5; ECO 426H1; MGT310Y1

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 any time if you do not meet all requirements set by the Department of Economics. For further information can be found in the 2017-2018 Courses Calendar which is available from the Registrar's Office.

HBS Cases, Texts, and References

We will use two Harvard Business School (HBS) cases to illustrate ideas and topics of personnel economics that are covered in this course. You should start reading them very carefully at the beginning of the class. Required cases are available for purchase with US\$4.25 each (you need to register first) at <http://cb.hbsp.harvard.edu/cbmp/access/67092218>

- Recruitment of a Star [407036-PDF-ENG] by Boris Groysberg, Steve Balog, and Jennifer Haimson. The research director of an investment banking firm has to replace a star

semiconductor analyst, either by promoting an internal junior analyst or by hiring one of the four external candidates. It covers recruiting, training, and human capital investment.

- Lincoln Electric Co. [376028-PDF-ENG] by Norman Fast and Norman Berg. Lincoln Electric has the world's most famous incentive scheme, and the case is the HBS' most famous case. It covers most major incentive issues, and describes possibly the most well designed and effective incentive system ever documented.

Useful but Not Required Textbooks:

- Lazear and Gibbs (2009), *Personal Economics in Practice*, 2nd edition, Wiley (LG).
- Migrom and Roberts (1992), *Economics, Organization and Management*, Prentice Hall (MR)
- Besanko, Dranove, Shanley, and Schaefer (2013), *Economics of Strategy*, Wiley, 6th edition (BDSS)

There will be readings assigned every week and the students must read them before class in order to be ready for class discussion.

Grading

There will be two problem sets, one midterm and one final.

- Problem sets:
 - Problem set 1 based on "Recruitment of a Star". Due September 30 (week 4).
 - Problem set 2 based on "Lincoln Electric Co.". Due November 18 (week 10).
- Midterm (in class). October 26 (week 7). Covers weeks 1-6. Duration 90 minutes, closed book.
- Final. Date TBA. Covers the entire course. Duration 2 hours, closed book.

The grade is given by

| | |
|--------------|-----|
| Problem Sets | 30% |
| Midterm | 30% |
| Final | 40% |

I will grade the problem sets myself according to the following grading rules:

- Each problem set accounts for 15%, and is due at the midnight (11:59pm) of the due date.
- There will be three possible grades for each timely submitted assignment: "V+" (15%), "V" (10%), and "V-" (2%). Late submission is not acceptable. Late submission or missed submission will get the default grade of 0.
- You can work alone or join a study group for the problem sets. There is no penalty for group work. Each study group can have up to four group members, and each group needs to turn in only one solution for each problem set. Please submit solutions via link (<https://submit.utm.utoronto.ca/utorsubmit/>), and pdf format is preferred (although docx file is acceptable too). If it is a group work, please list your group members in the first page of the solution.
- If you work alone, the grade on your submitted assignment will be your grade. If you work as a group, your grade is the grade on the assignment submitted by your group, with the following exception. If your group has 3-4 members (including you) and all your group members (excluding you) write to me that you do not sufficiently contribute to the group work, you will get the grade of "V-" (2%), regardless of your group grade.
- It is every student's responsibility to ensure that their online submission is submitted successfully by the due date. Accommodations will not be made for unsuccessful submissions

due to, but not limited to, i) the system timing out ii) submitting the incorrect document(s)
iii) poor internet connection/no internet connection etc.

The midterm is not optional. Students cannot petition to re-write the midterm once the test has begun. If you have to miss the midterm for reasons beyond your control, you must email me before the midterm explaining why you will miss the test, and submit a request with appropriate supporting documents, e.g., the Verification of Illness or Injury form (www.illnessverification.utoronto.ca) filled out by your physician, via the online Special Consideration Request form @ <https://utmapp.utm.utoronto.ca/SpecialRequest> within 24 hours. If I deem your explanation appropriate, the full percentage weight of the missed midterm may be allocated to the final exam, that is, your final exam will account for 70% of the final grade. If you fail to notify me before the midterm or if you fail to provide appropriate supporting documents, you will get the default score of zero for your midterm.

The midterm and final will be graded by TA. A written request for a re-grade of the midterm must be submitted within two weeks after the date of the return of the midterm. If your request is granted, I may regrade the whole midterm rather than the requested parts.

Course Schedule

Part One: Selecting and Investing in Employees

HBS Cases: Recruitment of a Star

Week 1 (September 7)

Introduction and Adverse Selection

- Lecture note on adverse selection
- Akerlof, G. (1970), "[The Market for 'Lemons': Quality Uncertainty and the Market Mechanism](#)," *Quarterly Journal of Economics* 84(3), 488-500. [all]
- Lazear, E. and K. Shaw (2007), "[Personnel Economics: The Economist's View of Human Resources](#)," *Journal of Economic Perspectives* 21(4), 91-114. [all]

Week 2 (September 14)

Hiring

- Lecture note on adverse selection
- Baker, G., M. Gibbs, and B. Holmstrom (1994), "[The Internal Economics of the Firm: Evidence from Personnel Data](#)," *Quarterly Journal of Economics* 109(4), 881-919. [all]
- LG, Chapter 1-2; MR, Chapter 10 [optional]

Week 3 (September 21)

Training

- Lazear, E. (1999), "[Firm-Specific Human Capital: A Skill-Weights Approach](#)," *Journal of Political Economy* 117: 914-940. [all, excluding Appendix]
- Bartel, A. (1995), "[Training, Wage Growth, and Job Performance: Evidence from a Company](#)

- [Database](#),” *Journal of Labor Economics* 13(3), 401-425. [all]
- LG, Chapter 3; MR, Chapter 10 [optional]

Week 4 (September 28)

Turnover and Efficiency Wages

Problem set 1 due September 30 at: <https://submit.utm.utoronto.ca/utorsubmit/>

- Shapiro, Carl, and Joseph E. Stiglitz (1984), “[Equilibrium Unemployment as a Worker Discipline Device](#),” *American Economic Review* 74(3), 433-444. [optional]
- Raff, D. M. G. and L. H. Summers (1987), “[Did Henry Ford Pay Efficiency Wages?](#)” *Journal of Labor Economics* 5 (4), S57-S86. [all]
- Cappelli, P. and K. Chauvin (1991), “[An Interplant Test of the Efficiency Wage Hypothesis](#)” *Quarterly Journal of Economics* 106(3), 769-87. [all]
- LG, Chapter 4; MR, Chapter 10 [optional]

Part Two: Motivating Employees

HBS Case: Lincoln Electric Co.

Week 5 (October 5)

Review HBS Case “Recruitment of a Star”

The Theory of Incentives: What Is the Optimal Piece Rate?

- Lecture note on optimal linear contract
- LG, Chapter 9-10; BDSS, Chapter 12; MR, Chapter 6-8 [optional]

Reading Week (October 12)

Week 6 (October 19)

Objective Performance Measure

- Baker, G. (1992), “[Incentive Contracts and Performance Measurement](#),” *Journal of Political Economy* 100(3), 598-614. [all, excluding appendix]
- LG, Chapter 9-10; BDSS, Chapter 12 [optional]

Week 7 (October 26) In Class Midterm

Week 8 (November 2)

Subjective Performance Measure

- Lecture note on repeated games and reputation
- Gibbons, R. and R. Henderson (2016), “[Relational Contracts and Organizational Capabilities](#),” *Organizational Science* 23(5): 1350-1364. [pages 1350-1358]

Week 9 (November 9)

Tournament and Promotion

- Lazear, E., and S. Rosen (1981), "[Rank-Order Tournaments as Optimum Labor Contracts](#)," *Journal of Political Economy*, 841-864. [optional]
- Brown, K., Harlow, W., Starks, L. (1996), "[Of Tournaments and Temptations: An Analysis of Managerial Incentives in the Mutual Fund Industry](#)," *Journal of Finance* 51, 85-110. [pp. 85-102.]
- Carpenter, Jeffrey, Peter Matthews and John Schirm (2010), "[Tournaments and Office Politics: Evidence from a real effort experiment](#)," *American Economic Review* 100 (1), 504-517. [all]

Week 10 (November 16)

Teams, Multitasking, and Job Design

Problem set 2 due November 18 at: <https://submit.utm.utoronto.ca/utorsubmit/>

- Kandel, E. & E. Lazear (1992), "[Peer Pressure and Partnerships](#)," *Journal of Political Economy* 100, 801-817. [all]
- Hamilton, B., J. Nickerson, 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]
- LG, Chapter 7, 8; BDSS, Chapter 14; MR, Chapter 12 [optional]

Week 11 (November 23)

Review HBS Case "Lincoln Electric Co."

Strategic Complementarity, Pension and Benefit

- Milgrom, P. and J. Roberts (1995), "[Complementarities and Fit: Strategy, Structure and Organizational Change in Manufacturing](#)," *Journal of Accounting and Economics* 19, 179-208. [pages 199-205]
- Ichniowski, C. Shaw, K. and G. Prennushi (1997), "[The Effects of Human Resource Management Practices on Productivity: A Study of Steel Finishing Lines](#)," *American Economic Review* 87: 291-313. [all]
- LG, Chapter 13 [optional]

Week 12 (November 30)

Evidence on Employee Motivation: What Works, What Doesn't, and Why

Piece-Rate Contract

- Lazear, E. (2000), "[Performance Pay and Productivity](#)," *American Economic Review* 90(5), 1346-1361. [all]
- Shearer, B. (2004), "[Piece Rates, Fixed Wages and Incentives: Evidence from a Field Experiment](#)," *Review of Economic Studies* 71 (2), 513-534. [optional]
- Margin, Roger (2004), "[Our Love-Hate Relationship with Monetary Incentives](#)," *Rotman Magazine*. [all]
- Roy, Donald (1952), "[Quota Restriction and Goldbricking in a Machine Shop](#)," *American Journal of Sociology*, 427-442. [optional]

- Bandiera, B., I. Barankay, and I. Rasul (2005), “[Social Preferences and the Response to Incentives: Evidence from Personnel Data](#),” *Quarterly Journal of Economics* 120(3), 917-962. [optional]
- Bandiera, B., I. Barankay, and I. Rasul (2009), “[Social Connections and Incentives in the Workplace: Evidence from Personnel Data](#),” *Econometrica* 77(4), 1047-1094. [optional]

Social and Psychological Factors

- Bebchuk, L. A., and J. M. Fried (2003), “[Executive Compensation as an Agency Problem](#),” *Journal of Economic Perspectives*, 17(3), 71-92. [all]
- Gneezy, U. and A. Rustichini (2000), “[Pay Enough or Don't Pay at All](#),” *Quarterly Journal of Economics* 115(3), 791-810. [all]
- Card, D., A. Mas, E. Moretti, and E. Saez (2012), “[Inequality at Work: The Effect of Peer Salaries on Job Satisfaction](#),” *American Economic Review* 102, 2981-3003. [Section III, 2990-3001].
- Falk, A. and M. Kosfeld (2006), “[The Hidden Costs of Control](#),” *American Economic Review* 96(5), 1611-1630. [all]

Informing Your Professor and Submitting Appropriate Documentation:

The following steps must be completed in order to be considered for academic accommodation for any missed quiz/test.

1. Students must inform their professor in writing (e-mail is acceptable) within 24 hours of a test date of any circumstances that prevent them from writing a test.
2. Students must complete an online Special Consideration Request @ <https://utmapp.utm.utoronto.ca/SpecialRequest>. Students who miss a test due to circumstances beyond their control (e.g. illness or an accident) can request that the Department grant them special consideration. You must inform your instructor within 24 hours and you have 48 hours from the date of the missed test to submit your online request (late requests will NOT be considered without a “letter of explanation” as to why the request is late). Note: The system only supports Microsoft Internet Explorer and Firefox for the time being.
3. Original supporting documentation (e.g. Verification of Student Illness or Injury form, accident report, etc) must be submitted to the dropbox located outside Room 3274, Innovation Complex Building. Supporting documentation is required within one (1) week of submitting your online request. Please Note: (i) If you missed your test for a reason connected to your registered disability, please be advised that the department will accept documentation supplied by the UTM AccessAbility Resource Centre; (ii) ROSI declarations are not accepted as supporting documentation; (iii) If your reason for absence is due to a last minute flight due to a family emergency (illness/death etc.) you must provide your flight itinerary including the date the flight was purchased as well as boarding passes in addition to proof of death/illness/accident.
4. **Verification of Student Illness or Injury forms:** Documentation must show that the physician was consulted within one day of the test date. A statement merely confirming a report of illness made by the student is not acceptable (such as, “This patient tells me that he was feeling ill on that day.”). Verification of Student Illness or Injury forms can be found on the Office of the Registrar’s webpage (www.illnessverification.utoronto.ca).
5. **Extenuating Circumstances:** Students must notify the professor within 24 hours and you have 48 hours from the date of the missed test to submit your online request to the Special Consideration Request at <https://utmapp.utm.utoronto.ca/SpecialRequest>. If support has been obtained from someone other than a practitioner listed on the U of T Verification of Student Illness or Injury form then a [Verification of Extenuating Circumstances form](#) is acceptable. Other documentation can include, but is not limited to: letter of support from AccessAbility, automobile collision or police reports, death certificate, and supporting documentation from employers, lawyers and other related personnel.
6. **Declaration of Absence:** Absence must be declared on the day of or day after your absence on ACORN in order to be considered for an academic accommodation for any course work such as missed tests, late assignments, and final exams. Absences include those due to illness, death in the family, religious accommodation or other circumstances beyond your control.

In the event of a missed exam, please refer to the [Deferred Exam](#) instructions. Proper documentation will be required. Consult the Office of the Registrar should your absence be lengthy or affect multiple courses.

Please note that the written explanation and documentation that you submit represents an appeal from you, requesting the opportunity to account for that portion of your grade in some other manner. If an appeal is not received, or if the appeal is deemed unacceptable, you will receive a grade of zero for the item you missed. If the appeal is granted – that is, your reason for missing the item is considered acceptable by the professor – then a mechanism for accounting for the grade value of the missed item will be used.

It is your responsibility to ensure your email account is working and able to receive emails. Claims that a Departmental decision was not received will NOT be considered as a reason for further consideration.

Holidays and pre-purchased plane tickets, family plans, your friend’s wedding, lack of preparation, or too many other tests/assignments are not acceptable excuses for missing a quiz, a test, an item of term work, or an extension.

Note Concerning Turnitin

Normally, students will be required to submit written assignments to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their assignments to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site (www.Turnitin.com). If you have an objection to the use of Turnitin for the submission of your work, please make an appointment to speak personally with the Course Instructor to discuss alternative arrangements. A guide for students is

available from the University of Toronto's Office of Teaching Advancement, at: <http://sites.utoronto.ca/academicintegrity/TurnitinGuideForStudents.pdf>. This information will also be made available on the course Blackboard site.

Equity Statement and Academic Rights:

The University of Toronto is committed to equity and respect for diversity. All members of the learning environment in this course should strive to create an atmosphere of mutual respect. As a course instructor, I will neither condone nor tolerate behaviour that undermines the dignity or self-esteem of any individual in this course and wish to be alerted to any attempt to create an intimidating or hostile environment. It is our collective responsibility to create a space that is inclusive and welcomes discussion. Discrimination, harassment and hate speech will not be tolerated. If you have any questions, comments, or concerns you may contact the UTM Equity and Diversity officer at edo.utm@utoronto.ca or the University of Toronto Mississauga Students' Union Vice President Equity at vpequity@utmsu.ca.

Academic Rights

You, as a student at UTM, have the right to:

- Receive a syllabus by the first day of class.
- Rely upon a syllabus once a course is started. An instructor may only change marks' assignments by following the University Assessment and Grading Practices Policy provision 1.3.
- Refuse to use turnitin.com (you must be offered an alternative form of submission).
- Have access to your instructor for consultation during a course or follow up with the department chair if the instructor is unavailable.
- Ask the person who marked your term work for a re-evaluation if you feel it was not fairly graded. You have up to two weeks from the date of return of the item to inquire about the mark. If you are not satisfied with a re-evaluation, you may appeal to the instructor in charge of the course if the instructor did not mark the work. If your work is remarked, you must accept the resulting mark. You may only appeal a mark beyond the instructor if the term work was worth at least 20% of the course mark.
- Receive at least one significant mark (15% for H courses, 25% for Y courses) before the last day you can drop a course for H courses, and the last day of classes in the first week of January for Y courses taught in the Fall/Winter terms.
- Submit handwritten essays so long as they are neatly written.
- Have no assignment worth 100% of your final grade.
- Not have a term test worth 25% or more in the last two weeks of class.
- Retain intellectual property rights to your research.
- Receive all your assignments once graded.
- View your final exams. To see a final exam, you must submit an online Exam Reproduction Request within 6 months of the exam. There is a small non-refundable fee.
- Privacy of your final grades.
- Arrange for representation from Downtown Legal Services (DLS), a representative from the UTM Students' Union (UTMSU), and/or other forms of support if you are charged with an academic offence.

Academic Integrity/Honesty or Academic Offenses:

It is your responsibility as a student at the University of Toronto to familiarize yourself with, and adhere to, both the Code of Student Conduct and the Code of Behaviour on Academic Matters. This means, first and foremost, that you should read them carefully.

- The [Code of Student Conduct](#) is available from the U of T Mississauga website (Registrar > Academic Calendar > Codes and Policies) or in your print version of the Academic Calendar.
- The [Code of Behaviour on Academic Matters](#) is available from the U of T Mississauga website (Registrar > Academic Calendar > Codes and Policies) or in your print version of the Academic Calendar.

Another helpful document that you should read is [How Not to Plagiarize](#), by M. Proctor.

Accessibility:

U of T Mississauga and the AccessAbility Resource Centre are committed to the full participation of students with disabilities in all aspects of campus life. The AccessAbility Resource Centre provides academic accommodations and services to students who have a physical, sensory, or learning disability, mental health condition, acquired brain injury, or chronic health condition, be it visible or hidden. Students who have temporary disabilities (e.g., broken dominant arm) are also eligible to receive services. All interested students must have an intake interview with an advisor to discuss their individual needs. Students who require accommodation are advised to visit the AccessAbility Resource Centre as early as possible to have their needs assessed, as it may take some time to process the application.

For more information please contact the centre at:

Room 2047, South Bldg.
Tel/TTY: 905-569-4699
E-mail: access.utm@utoronto.ca
Web: www.utm.utoronto.ca/access

Policy on Religious Observances:

As noted in the the [Policy on Scheduling of Classes and Examinations and Other Accommodations for Religious Observances](#), the following provisions are included:

“It is the policy of the University of Toronto to arrange reasonable accommodation of the needs of students who observe religious holy days other than those already accommodated by ordinary scheduling and statutory holidays.

Students have a responsibility to alert members of the teaching staff in a timely fashion to upcoming religious observances and anticipated absences. Instructors will make every reasonable effort to avoid scheduling tests, examinations or other compulsory activities at these times. If compulsory activities are unavoidable, every reasonable opportunity should be given to these students to make up work that they miss, particularly in courses involving laboratory work. When the scheduling of tests or examinations cannot be avoided, students should be informed of the procedure to be followed to arrange to write at an alternate time.

It is most important that no student be seriously disadvantaged because of her or his religious observances. However, in the scheduling of academic and other activities, it is also important to ensure that the accommodation of one group does not seriously disadvantage other groups within the University community.”

With respect to minimum advance notice, the Policy provides that "Students have a responsibility to alert members of the teaching staff in a timely fashion to upcoming religious observances and anticipated absences." Since students would normally be aware of upcoming religious observances as well as examination schedules in advance, a minimum of three weeks advance notice will be considered sufficient.

More information and some dates of potential relevance for the U of T community are available at www.vicereprovtstudents.utoronto.ca/publicationsandpolicies/guidelines/religiousobservances.htm.

As with any academic accommodation request, students must submit an on-line Special Consideration Request @ <https://utmapp.utm.utoronto.ca/SpecialRequest>