

PERSONNEL ECONOMICS

ECO 381H, Summer 2006

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Office Hrs: Tues, Thurs. 2:30-3:30

This course is concerned with the economics of compensation and incentives inside organizations.

The lectures will present and discuss material from the papers and book chapters listed below. Students are responsible for the material appearing in square brackets after each reading. Material marked with a * is not covered in lecture. A set of questions based on each reading is available either at www.economics.utoronto.ca/hosios, under ECO 381, or will be given as handouts. As significant portions of the test and exam are based on these questions, answers are NOT provided; I will discuss with students the answers they have prepared.

The readings are available as a package from Scholar House Press, 100 Harbord Street.

0. Background

- * Pyndyck, R. & D. Rubinfeld (1995), "The Basics of Regression," Appendix in *Microeconomics*, 3rd Edition, Prentice-Hall. [all]

1. Training

- Lazear, E. (1998), "The Theory of Human Capital," Chapt. 6 in *Personnel Economics for Managers*, (Wiley). [135-159]
- * Baron, J. & D. Kreps (1999), "Training," Chapt. 15 in *Strategic Human Resources: Frameworks for General Managers*, (Wiley). [369-390]
- Bartel, A. (1995), "Training, Wage Growth, and Job Performance: Evidence from a Company Database," *Journal of Labor Economics*, 13 (3) 401-425. [all]

2. Motivating Individuals

- Milgrom, P. & J. Roberts (1992), "Risk Sharing and Incentive Contracts," Chapt. 7 in *Economics, Organization & Management* (Prentice Hall). [206-228]
- * Baron, J. & D. Kreps (1999), "Pay for Performance," Chapt. 11 in *Strategic Human Resources: Frameworks for General Managers*, (Wiley). [243-256]
- * Lazear, E. (1999), "Personnel Economics: Past Lessons and Future Directions," *Journal of Labor Economics*, 17: 199-236. [Section I.C]

3. Motivating Groups

- * Lazear (1998) "Teams." Chapt. 12 in *Personnel Economics for Managers*, (Wiley). [304-317, 325-328, 343]
- Kandel, E. & E. Lazear (1992), "Peer Pressure and Partnerships," *Journal of Political Economy* 100, 801-817 [all]
- * 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]

4. Job Design and Performance Measures

- * Lazear, E. (1998) "The Job: Tasks and Authority." Chapt. 16 in *Personnel Economics for Managers*, (Wiley). [442-451]
- Milgrom, P. & J. Roberts (1992), "Risk Sharing and Incentive Contracts," Chapt. 7 in *Economics, Organization & Management* (Prentice Hall). [228-232]
- Gibbons, R. (2004), "Lecture Note 1: Agency Theory," mimeo, Sloan School, MIT [9-16]
- * Baker, G. (2000), "The Use of Performance Measures in Incentive Contracting," *American Economic Review*, 90(2):415-420. [all]

5. Synergies

- Roberts, J. (2004), "Key Concepts for Organization Design," Chapt. 2 in *The Modern Firm: Organizational design for Performance and Growth* (Oxford). [all]
- * 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]
- * 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*, 87:291-131. [all]

Rules of the Game: There will be one term test and a final examination that count for 40% and 60% of the final course grade, respectively. The mid-term test will be held during class on June 1st. The final exam will cover material presented **after** the mid-term test and is scheduled for June 29th. The location of the final will be announced during the course.

Students who miss the term test will be assigned a mark of zero for that test unless, **prior to the next class**, they contact the instructor 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 **within one week** after original test date.

Email correspondence should be limited to administrative problems. Lecture material, readings and problem sets should be discussed in person, during office hours and/or before or after class.