**UG Course Outline**

**EC2215: Personnel Economics**

**2015/16**

**Spring:**

**Instructor:** Andrew Seltzer

**Office:** Horton 302

**Phone:** +44 (0) 1784 443475

**E-mail:**  [a.seltzer@rhul.ac.uk](mailto:a.seltzer@rhul.ac.uk)

**Office hours:** Fridays 2-4

**Course Overview**

This is a half-year course examining contracts between firms and their workers. It will focus on hiring, training, pay, job assignments, promotion, quits and dismissals, and pensions. The course will use economic theory to outline the nature of labour contracts, and use statistical analysis to examine the empirical relevance of different types of contracts.

**Aims**

This course will build upon microeconomics and statistics introduced in Year 1 in order to develop an understanding of some of the principle issues in personnel economics, while providing opportunities to practice and develop a range of key skills.

**Learning Outcomes**

Upon completion of the course students should:

o Understand the basic theoretical models of personnel economics and how these can be applied to policy issues;

o Understand the underlying empirical approaches used to evaluate these models and be familiar with the empirical work conducted to test their predictions;

o Be able to manipulate these models, and be able to analytically solve problems relating to labour contracts;

o Be able to apply the models to important policy areas whilst being aware of the limitations of the theory;

o Have an overview of the main areas in personnel economics and be able to read journal articles and understand the main issues presented.

In addition students should:

1. Have further developed their skills in written and verbal communication and numeracy.

2. Have further developed their skills in problem solving, planning and organising, initiative and adaptability.

**Course Delivery**

The course will be delivered through a one-hour lecture and a one-hour seminar each week. Specific learning outcomes and readings are provided for each week. Seminars will be used both to present new material and to solve problems. I will be available for consultations during the advertised office hours or by appointment.

**Assessment**

The final mark is composed of

 Group Presentation 10% (presentation 5% + written report 5%)

 Midterm Exam 15%

 Final Exam 75%

A two-hour unseen exam for this course will be given during the summer term and will count for 75 per cent of the overall mark. The exam will test your knowledge and understanding of the material covered in the course. You will be required to demonstrate an understanding of important issues in personnel economics and the techniques used to analyse these issues.

In addition to the final exam, 25 per cent of your overall mark will be determined by continuous assessment. A one hour mid-term test will count for 15 per cent of the overall mark. The date for the mid-term test is listed in the student handbook. The mid-term will be held during the lecture slot.

Both midterm and final exams will be closed book, closed notes exams. They will cover the material presented in lectures and seminars and will test your knowledge of relevant concepts and issues; the depth of your understanding and extent of critical evaluation, including evidence of wider reading; your ability to manipulate, compare, and logically explain diagrammatic and mathematical versions of the models; your ability to critically appraise models and their applications; structure and clarity of presentation.

The remaining 10 per cent of your overall mark will come from a presentation of one article from the required reading. Depending on the number of students in the class, the readings will be presented by groups of between 1 and 4 students. The presentation should be no longer than 15-20 minutes and will count for 5 per cent of the mark. Note: You cannot choose which article to present. If there are any dates when you have legitimate prior conflicts, please let me know in advance. There is

some flexibility in the seminar schedule and I will try to accommodate any legitimate scheduling conflicts.

Within one week after your presentation, a short written report (1-2 pages) based on the article is due. The report counts for a further 5 per cent of the mark. The presentation and article report should contain a concise statement of the author’s research question; a brief outline of how the author answers the question including methods and data; and a list of critiques, praise, or questions you have regarding the adequacy of the methodology. Your report should be submitted through Turnitin anti-plagiarism software via the designated link on the Moodle course webpage.

**Reading**

Private study of the reading material is an integral part of the course. The textbook for this course is:

*Gibbs and Lazear, Personnel Economics in Practice.*

In addition to the textbook, you will be required to read several journal articles, which are given to you each week for the seminars. I would recommend that you read the articles in advance of the seminars in order to get the most out of the seminars. These articles will tend to be somewhat technical, and although you may not fully understand the techniques, it is important to understand the main issues being addressed by these articles. These articles are available online at UK – JSTOR, which is accessible on campus:

([http://uk.jstor.org/cgi-bin/jstor/listjournal?frame=noframe#Economics](http://uk.jstor.org/cgi-bin/jstor/listjournal?frame=noframe&amp;Economics)).

You can only access JSTOR on campus or via remote login, unless you have subscribed personally. Make sure that you download all articles well in advance of the seminars! The seminar worksheets are designed to help you understand the main points of the articles.

**Detailed Reading**

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| **Topic** | **Reading** |
| **Topic 1: Introduction: The**  **Principle-agent problem** | Reading: Edward P. Lazear and Kathryn L. Shaw (2007), “The  Economist's View of Human Resources”, *The Journal of Economic*  *Perspectives*, 21, 4, pp. 91-114 |
| **Topic 2: Hiring** | Reading: GL chapters 1-2 |
| **Topic 3: Training and**  **Turnover** | Reading GL: chapters 3-4 |
| **Topic 4: Performance**  **Evaluation** | Reading GL: chapter 9  Medoff, James L., and Katharine G. Abraham. "Experience, performance, and earnings." *The Quarterly Journal of Economics*  95.4 (1980): 703-736. |
| **Topic 5: Rewarding**  **Performance** | Readings: GL Chapter 10  Edward Lazear, “Performance pay and productivity.” *American*  *Economic Review*, 90, 5 (2000): 1346-1361.  Bandiera, Oriana, Iwan Barankay, and Imran Rasul, "Social connections and incentives in the workplace: Evidence from personnel data." *Econometric*a, 77, 4 (2009): 1047-94. |
| **Topic 6: Efficiency wages** | Raff, Daniel and Summers, Lawrence, “Did Henry Ford pay  efficiency wages?” *Journal of Labor Economics*, 5, 4 (1987): s57-s86.  Yellen, Janet L. "Efficiency wage models of unemployment." *The American Economic Review* (1984): 200-205. |
| **Topic 7: Deferred**  **Compensation** | Readings: GL Chapter 11  Seltzer, Andrew and Merrett, David, “Personnel practices at the Union Bank of Australia: Panel evidence from the 1887-1900 entry cohorts.” *Journal of Labor Economics*, 18 (2000): 573-613. |
| **Topic 8: Academic Tenure** | Readings: Michael S. McPherson and Morton Owen Schapiro (1999), Tenure Issues in Higher Education, *Journal of Economic Perspectives*, 13 (1): 85–98.  Carmichael, H Lorne (1988), Incentives in Academics: Why Is There Tenure?, *Journal of Political Economy*, 96(3): 453-72. |
| **Topic 8: Promotion**  **Tournaments** | GL Chapter 11  Baker, George; Gibbs, Michael; and Holmstrom, Bengt ,“The wage policy of a firm.” *Quarterly Journal of Economics*, 99 (1994): 921 - 55.  Baker, George; Gibbs, Michael; and Holmstrom, Bengt ,“The internal economics of the firm: Evidence from personnel data.” *Quarterly Journal of Economics*, 99 (1994): 881 - 919. |
| **Topic 9: Behavioural**  **aspects of labour markets** | Readings: Camerer, Colin; Babcock, Linda; Lowenstein, George;  and Thaler, Richard, “Labor supply of New York City cabdrivers: One day at a time.” *Quarterly Journal of Economics*, 112 (1997):  407-441.  Ariely, Dan; Kamenica, Emir and Prelec, Dražen, "Man's search for meaning: The case of Legos." *Journal of Economic Behavior & Organization*, 67, 3 (2008): 671-677. (available from google scholar)  Gneezy, Uri, and Aldo Rustichini. "Pay enough or don't pay at all."  *The Quarterly Journal of Economics*, 115,3 (2000): 791-810. |

**(Tentative) Schedule**

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| **Week** | **Schedule** |
| **Week 1 – Week**  **beginning 11/01** | Lecture: The Principle-agent problem  Seminar: No Seminar |
| **Week 2– Week**  **beginning 18/01** | Lecture: The Principle-agent problem, Hiring  Seminar: GL chapters 1-2 |
| **Week 3 – Week**  **beginning 25/01** | Lecture: Hiring, Training and turnover  Seminar: GL: chapters 3-4 |
| **Week 4 – Week**  **beginning 01/02** | Lecture: Performance evaluation and Rewarding performance  Seminar: GL: chapters 9 and 10  Medoff and Abraham. "Experience, performance, and earnings." |
| **Week 5 – Week**  **beginning 08/02** | Lecture: Efficiency wages  Seminar:  \*Bandiera, Barankay, and Rasul, "Social Connections and  Incentives in the Workplace"  \*Lazear, “Performance Pay and Productivity” |
| **Week 6 – Week**  **beginning 15/02** | Lecture: Reading Week, no Lecture  Seminar: Reading Week, no Seminar |
| **Week 7 – Week**  **beginning 22/02** | Lecture: Deferred Compensation  Seminar: Yellen, Janet L. "Efficiency wage models of unemployment."  \*Raff and Summers, “Did Henry Ford Pay Efficiency Wages?” |
| **Week 8 – Week**  **beginning 01/03** | Lecture: Test, covers all material through efficiency wages  Seminar: Carmichael, Why is there tenure?  McPherson and Schapiro, Tenure Issues in Higher Education |
| **Week 9 – Week**  **beginning 08/03** | Lecture: Tenure  Seminar:  \*Seltzer and Merrett, “Personnel Practices at the Union Bank of  Australia”  \*Baker, Gibbs, and Holmstrom, “The Wage Policy of a Firm” |
| **Week 10 – Week**  **beginning 15/03** | Lecture: promotion tournaments |



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|  | Seminar: GL Chapter 11  \*Baker, Gibbs, and Holmstrom, “The Internal Economics of the  Firm” |
| **Week 11 – Week**  **beginning 22/03** | Lecture: Behavioural aspects of labour markets  Seminar:  Ariely, Kamenica, and Prelec. "Man's search for meaning”  \*Gneezy and Rustichini. "Pay enough or don't pay at all."  \*Camerer, Babcock, Lowenstein, and Thaler, “Labor supply of  New York City Cabdrivers” |