

Personnel Economics for Managers

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Office Hours:
Thur. 1:30 – 2:30 and
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Course Overview

This course uses economics to answer many of the practical questions that managers face when dealing with their personnel. For example,

- ◆ How do I set the appropriate hiring standards?
- ◆ Should I hire more workers or increase the hours of current workers?
- ◆ Should I pay workers based on their hours of work or on their output?
- ◆ How can I create incentives for my workers to work hard?
- ◆ When is a collective bargaining negotiation likely to end up in arbitration?
- ◆ How do I choose between buying out and laying off my workers?
- ◆ Which workers should I promote?

Course Objectives

The course objectives are: first, to provide students with a framework from which to judge the impact and appropriateness of various employment practices and second, to provide an opportunity to further critical analytical skills. **While students are not expected to know anything about labour economics, a strong background in microeconomics and mathematics will be expected.**

Course Organisation

This course is organised around the following six themes:

- ◆ Hiring Workers
- ◆ Compensating Workers
- ◆ Educating and Training Workers
- ◆ Motivating Workers
- ◆ Firing and Laying Off Workers
- ◆ Organising Workers

Readings (**denoted L**) will be primarily based upon:

Edward P. Lazear, 1998. *Personnel Economics for Managers*. New York, NY: Wiley & Sons, Inc.

Supplementary readings* (**denoted E/S**) will be drawn from:

Ronald G. Ehrenberg and Robert S. Smith, 1996. *Modern Labor Economics: Theory and Public Policy, Sixth Edition*. Reading, MA: Addison-Wesley.

*Supplementary readings will be available for short-term loan at Chifley Library.

Course Assessment

Course assessment will be based upon a combination of three problem sets (20%), a mid-term exam (30%), and a final exam (50%). All exams and problem sets are mandatory, although only the best two out of the three problem sets will count towards the final mark for the course. Exams will consist of both essay questions and analytical problems similar to those on the problem sets.

Course Schedule

Theme 1: Hiring Workers	(2 weeks)
A. Setting Hiring Standards	
1. The Trade Off Between Highly-Skilled and Less Skilled Workers.	L 9-29 E/S 333-337
2. Hiring Risky Workers	L 29-24
B. Hiring The Right People	
1. Self-Selection and Contingent Contracts	L 45-56, L 67-68
2. Monitoring Costs	L 56-71
C. Choosing the Mix of Workers and Hours	E/S 140-151
D. Hiring Investments	E/S 168-172
Theme 2: Educating and Training Workers	(2 weeks)
A. Formal Education	L 133-142 E/S 286-298
B. General and Specific On-The-Job Training	L 142-165 E/S 159-168
C. Education as a Signal	L 195-209 E/S 311-326
Theme 3: Compensating Workers	(4 weeks)
A. Variable Pay or Straight Salary	L 97-132
1. Safelite Glass Corporation	L 102-103 L 358-364
B. Bonuses or Penalties	L 358-376
C. Non Monetary Compensation	L 377-408
D. Bargaining and Arbitration	E/S 519-523

Theme 4: Motivating Workers	(1 week)
A. Promotions as Motivators	
1. The Tournament Model	L 223-242
2. Absolute Versus Relative Performance	L 243-258
B. Seniority-Based Incentive Schemes	L 281-301
Theme 5: Firing and Laying Off Workers	(1 week)
A. Turnover: Is It Desirable?	L 167-172
B. Buyouts Versus Layoffs	L172 – 193 E/S 281-285
Theme 6: Organising Workers	(2 weeks)
A. Teams	
1. The Use of Teams	L 303-315
2. Incentives in Teams	L 315-328 L340-343
3. Choosing and Rotating Team Members	L 328-335
4. Worker Owned Firms	L 335-339
B. The Employment Relationship	
1. Outsourcing	L 345-356
2. Franchising	L 356-358
C. The Job: Tasks and Authority	L 441-476