

Center for Human Resources and Labor Studies  
Carlson School of Management  
UNIVERSITY OF MINNESOTA

Personnel Economics

HRIR 5662 (2 credits)  
Spring 2017, B term  
5:45-9:05 p.m. Thursdays  
1-127 Carlson School

Professor John W. Budd  
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Office Hours: by appointment

Personnel economics is the application of economic theories to human resource management issues, such as compensation, promotions, performance evaluation, selection, and training. Personnel economics provides a rigorous framework for analyzing human resources policies by focusing on the behavior of self-interested workers. Personnel economics is particularly useful for understanding workers' responses to economic incentives, especially when information is imperfect so that employees and their work cannot be perfectly observed or monitored. Human resource managers can use the teachings of personnel economics to predict employees' responses to various human resources policies, and use this knowledge to complement other perspectives when designing policies to best achieve the desired goals.

Learning Objectives: By the end of this course, students should be able to:

- **Identify** the key assumptions and topics of personnel economics.
- **Discuss** the mainstream economics view of incentives within organizations and the implications for compensation, promotions, performance evaluation, selection, and training as developed through stylized economic models.
- **Analyze** human resource management issues using the insights generated by economic theories. Note: this does not involve the literal application of stylized economic models; rather, the goal is to develop more sophisticated ways of thinking so that you are better prepared to analyze real cases in a holistic way.
- **Understand** the limitations of personnel economics.

Advice: Strive to understand the economic models in this course as they are presented (that is, in a stylized, homo economicus world) and then look for real-world applications of the insights. Do not try to understand the models as literal presentations of real-world applications.

### Required Materials

William S. Neilson (2006) *Personnel Economics* (Upper Saddle River, NJ: Pearson Education).  
[Thanks to Professor Neilson's generosity, the needed sections can be accessed in Moodle]

A Harvard Business School case will be distributed in class; links to other readings are provided on the course website (look under the relevant units).

### Grading

Problem Set	April 13, 2017	25%
Application Paper	April 20, 2017	30%
Participation in HBS Case Discussion	April 27, 2017	5%
Exam	May 4, 2017	40%

Problem Set: There is one problem set that is due at the beginning of class on April 13, 2017. The problem set will be graded by the TA. If your problem set is neat, legible, and shows your work, the TA can give partial credit for incorrect answers when appropriate. The assignment is on the HRIR 5662 Moodle site. Students are welcome (even encouraged) to discuss the assignment with each other, but each student is responsible for handing in their own, unique, original work.

Application Paper: A paper that analyzes the application of personnel economics to a specific human resources situation is due at the start of class on April 20, 2017. A hard copy must be submitted by the deadline; an electronic copy is not acceptable except under extenuating circumstances. This paper should be a maximum of three pages (size 12 font, double-spaced, and 1" margins). Three pages is not very long so be sure to emphasize analysis rather than description.

There are three options for the application paper:

1. The movie *Glengarry Glen Ross* (1992) features a sales tournament. After watching the movie, assume the role of Mitch and Murray's new HR person and explain to them why they should not be surprised by how the salesmen responded to the tournament (in other words, carefully analyze the actions of the salesmen in the tournament to demonstrate how tournament theory helps you understand the behaviors you observe). Also, are there behaviors that are inconsistent with tournament theory? If so, why? Note: watch *Glengarry Glen Ross* on various online streaming services or buy a used DVD online. Other movies can be substituted for *Glengarry Glen Ross* with prior approval from Professor Budd by April 14.
2. Use "Engstrom Auto Mirror Plant: Motivating in Good Times and Bad" (Harvard Business School Case 2175) to address two issues: i) prepare a set of recommendations for Ron Bent using the principles of personnel economics, and ii) specify how your personal recommendations would differ (if any) and why (or why not). This case can be purchased online at <http://hbp.harvardbusiness.org/store/>
3. Examine a real-life human resources situation by analyzing the extent to which personnel economics helps you understand this situation and the extent to which personnel economics is inaccurate. To use this option, by April 14 you must e-mail Professor Budd a description of the specific situation to be analyzed, and subsequently receive approval.

**You should try to make your analyses understandable to someone without training in personnel economics. The best assignments will not have graphs, equations, or technical jargon but will instead translate the key economic ideas in ways that maintain their rigor, clarity, and usefulness while making them accessible to human resources professionals. Do not literally apply the models from the lectures; rather, apply the lessons and insights of these models to these more complicated and realistic cases in ways that show how your understanding of the course concepts promotes a deeper understanding of employee behavior.**

Put your id number (not your name) at the top of the first page, and be sure to number each page. Be sure to spell check and proofread your work because grammatical and other mistakes detract from its quality. Students are welcome (even encouraged) to discuss the assignment with each other, but each student is responsible for handing in their own, unique, original work.

Also, outside references are not needed. The course lectures and textbook should provide all of the foundational ideas that are needed to construct insightful analyses of these applications (in other words, you are probably better off spending your time thinking rather than searching for other references). However, if you use other sources, use the in-text / parenthetical citation method where the author and year (and page number if needed) appear in the text, and the full citation of each cited work (including web pages) appears in a “References” section at the end of the paper. This “References” section does not count toward the 3-page limit. The course website has examples of the in-text citation method and styles; APA style or other widely used styles are acceptable. Be careful to consistently and accurately credit all print and electronic sources used—**plagiarism is a very serious offense and will not be tolerated**. If you are ever in doubt, seek clarification from Professor Budd.

Exam: An in-class exam on May 4, 2017. It is expected that the exam will include short-answer problems and one or more essay questions. Additional details will be provided during the term closer to the exam date. An optional Q&A session in preparation for the exam will be offered on Dec. 10.

Classroom Expectations: The professor and students are expected to behave professionally at all times. The professor will respect the students, and each student is expected to be respectful of the professor and their fellow students. Professional behavior includes, but is not limited to, the following:

*Honesty*. Do your own work. Plagiarizing from other students, books and journals, the internet, and other sources is a serious offense and is not acceptable. Be sure to fully cite your work.

*Preparation*. Come to class prepared to listen, learn, and participate. Print out the pre-class slides and bring multiple colored pens or pencils. Ask questions when you are confused!

*Politeness*. Ask questions and contribute to class discussions in a positive, inclusive, and respectful manner. Respond to dissenting views with respect and reason. Respect your classmates.

*Attentiveness*. Silence and, except in emergencies, do not use your cell phone. Laptops and tablets are welcome for class-related purposes such as note taking. Other activities are inappropriate and exhibit disrespect towards the instructors and other students. Focus on the tasks at hand during group meetings. Limit individual conversations and other distractions to break times.

*Timeliness*. Complete assignments on time. Be on time for class. Unforeseen events occur and students have multiple demands on their time (such as work or interviews). If you must arrive late or leave early, do so without walking in front of any speakers. Provide advance notice to the professor whenever possible. Reserve the seats by the door for those who must arrive late or leave early.

## Course Outline

### **I. Introduction—Homo Economicus at Work (March 23)**

William S. Neilson (2006) *Personnel Economics* (Upper Saddle River, NJ: Pearson Education), chapters 1-2 and pp. 15-17. [Note: chapters and page numbers refer to the published book; the online excerpts in Moodle match these sections even if the page numbers and/or chapter numbers are different]

### **II. The Optimal Supply of Labor and Effort (March 30)**

Neilson (2006) *Personnel Economics*, pp. 17-26 and chapter 4

### **III. Pay for Performance—Individual and Team-Based (April 6)**

Neilson (2006) *Personnel Economics*, chapters 5-6, and 11.

### **IV. Promotions and Tournaments (April 13)**

Neilson (2006) *Personnel Economics*, pp. 79-84 and chapter 9 (except pp. 113-15).

### **V. Selecting and Motivating Multiple Types of Workers (April 20)**

Neilson (2006) *Personnel Economics*, chapters 7 and 15.

### **VI. Implicit Contracts and Efficiency Wages (April 20)**

Neilson (2006) *Personnel Economics*, chapter 12.

### **VII. Human Capital and Training (April 27)**

Neilson (2006) *Personnel Economics*, chapters 16 and 19.

### **VIII. Conclusion—The Power and Limits of Personnel Economics (April 27)**

Antoinette Weibel, Katja Rost, and Margit Osterloh (2007) “Crowding-Out of Intrinsic Motivation—Opening the Black Box,” unpublished paper.

John W. Budd (2011) *The Thought of Work* (Ithaca, NY: Cornell University Press), chapter 11.

Jieliang Phone Home! (Harvard Business School Case 9-609-080)

Optional Question and Answer session in preparation for the exam: Saturday, April 29, 2017 (10:00am-noon, Room TBD)

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**STATEMENT ON COURSE REQUIREMENTS**

1. The instructor will determine the conditions, if any, under which an "Incomplete" will be assigned instead of a grade. The instructor may set dates and conditions for makeup work, if it is to be allowed.
2. A student may not negotiate the submission of extra work in an attempt to raise his or her grade unless the instructor has made such opportunities available to all students.
3. Academic misconduct is a very serious issue with potential consequences ranging from failure in the course in question to dismissal from the University. Academic misconduct is defined broadly as any act that violates the rights of another student in academic work or that involves misrepresentation of your own work. This includes (but is not limited to) cheating on assignments or examinations; plagiarizing, which means representing as your own work any part of work done by another; submitting the same paper, or substantially similar papers, to meet the requirements of more than one course without the approval and consent of all instructors concerned; depriving another student of necessary course materials; or interfering with another student's work. Instructors may define additional standards beyond these.
4. Carlson School students are expected to understand and uphold the Carlson School Code of Conduct. Any violation of the Code of Conduct will not be tolerated and appropriate action will be taken.
5. Students with disabilities that affect their ability to participate fully in class or to meet all course requirements should bring this to the attention of the instructor during the first week of class so that appropriate accommodations can be made. Similarly, students for whom English is not their native language may request accommodation (such as additional time for examinations).
6. Student complaints or concerns about some aspect of a course sometimes arise. If possible, it is hoped that these can be resolved through an informal meeting between student and instructor. However, if a student feels this is not feasible, or if such discussion does not remedy the problem, the student may consult with the Director of the HRIR M.A. Program in 3-300 Carlson School of Management (if a graduate student) or the Director of the Center for Human Resources and Labor Studies, also in 3-300 Carlson School of Management (if an undergraduate student).
7. University policy prohibits sexual harassment. Copies of the University policy on sexual harassment are available at 419 Morrill Hall. Complaints about sexual harassment should be reported to the University Office of Equal Opportunity at 419 Morrill Hall.
8. Materials for this course are available in alternative formats upon request. Please contact the Director of the HRIR M.A. Program, 3-300 Carlson School of Management, (612) 624-2500.