

# **(X) Personnel Economics: A Primer**

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*Source: Lazear and Gibbs (2015)*

# Personnel economics

- Apply economics to human resource and management topics
- Recruitment issues:
  - Hiring standards
  - Screening
  - Signaling
- Working environment:
  - Training and investment in skills (specific vs general human capital)
  - Organizational design (hierarchical, etc.)
- Wage and benefits:
  - Performance pay
  - Career-based incentives

# Hiring risky workers

- See Lazear and Gibbs (2015), chapter 1
- Hiring risky workers is associated with option value of the labor contract
- The option value is higher:
  - The lower termination costs
  - The younger the worker
  - The lower turnover
  - The larger private information of the firm on worker's true productivity

# Production and hiring standards

- See Lazear and Gibbs (2015), chapter 1
- Cost-benefit analysis of hiring workers with different set of skills when:
  - Productivity is independent of coworkers
  - Productivity depends on coworkers
  - Productivity is independent of coworkers but depends on capital
- Optimal level of skills rises as the use of capital relative to labor increases

# Recruitment methods

- See Lazear and Gibbs (2015), chapter 2
- Screening
  - Informative credentials
  - Probation
  - Temporary work
- Signaling (Spence, 1973)
  - Education as signaling device
  - Separating equilibrium
  - Pooling equilibrium