

Econ 490: Compensation In Organizations

Summary: How people are paid can make or break an organization. This course studies organizational economics, with a focus on how compensation shapes work within organizations. Using a workhorse game theoretic model, case studies and recent empirical work in economics and management, students will learn how pay can help or hurt effort, teamwork, multitasking, and much more. This course will be useful for students interested in consulting, human resource analytics or starting their own company. A background in game theory is not required.

Office Hours: Gardner 206 Wednesday 10am-12pm

Lecture Location: Gardner 209

Section 2 Lecture: T/TH 12:30 – 1:45 pm

Section 3 Lecture: T/TH 2:00 – 3:15 pm

Email and Contact Policy: Please post all questions related to course content, logistics, etc. on the Canvas (not Sakai) forum to avoid repetition. Post logistical questions to the discussion thread labeled “Logistics” and content questions to the thread labeled “Content.” I will not answer emails about these sorts of questions.

Please submit all absence requests/excuses, late submission requests, or grade disputes to this Google form: <https://forms.gle/baxnFKnunuSzoDbs9>

Please use email only for urgent requests, emergencies or to contact me after the class is over for non-class related subjects (career questions, advice, etc.). I will not answer emails that are best directed to the course forum or the personal request form. I will attempt to answer questions on the forum and personal request Google form within 48 hours.

Grading: This course will use one of two grading schemes, whichever gives you a higher raw score.

1. 70% final, 30% midterm.
2. 40% final, 25% midterm, 25% problem sets, 10% participation.

After computing your maximum raw score using rule 1 or 2, all students that receive a minimum score will get a minimum grade of a C. As and Bs will be distributed based on the historical grade distribution in UNC Chapel Hill 400-level electives. Please note that:

- Because a passing grade of a C is awarded to all students who are above a minimum threshold, you will not fail this course due to the curve.
- I will award more As and Bs (make the curve more generous) if there is enough class participation in peer evaluation.

- Because the class is curved, your absolute score at any moment is not very informative about your class performance. However, your relative score is useful. If you are regularly scoring significantly below your classmates on problem sets or the midterm this is a sign that you should come to office hours and talk to classmates to better understand the material.
- For example, if you get a 51% on the midterm and the median was 40% you should consider your score to be quite good. But if the median was 70% you may need to come seek additional support.

Kritik: I will use a software called Kritik to grade the problem sets. This software will do two things. First, it will detect the use of generative AI. Second, it will facilitate peer evaluation. After you submit your work I will post a typed solution. Then each person will be assigned another person's work to evaluate. You will then be allowed to "grade the grader."

Problem Set Grading: Your problem set grade will be based on both a peer evaluation and your participation in peer evaluation. I designed the grading scheme so that if you do poorly on the problem sets and peer evaluation it is still possible for you to do well in the class. In order to encourage good participation in peer evaluations, I will award more As and Bs to the entire class if the class collectively provides enough fair, thoughtful and critical feedback during peer evaluation.

Incentives for Peer Evaluation: I believe that peer evaluation increases your understanding of the material and reduces the grading burden on the department. If the class collectively engages with the peer evaluation system, I will increase the number of As and Bs I distribute.

Attendance and Participation: I will not take attendance. However, we will briefly discuss the readings at the beginning of each class. I will randomly ask a few students at the beginning of each class to make a comment. As long as you are present and say something based on the readings you will get 100%. If you are absent due to a university approved absence (see the additional statements and sources section) please check with to see if your name was called and I can make alternative arrangements.

Note on readings: In order to encourage reading, I will put a few very simple questions on exams which only require reading the introduction of the article.

1/09 No Class (Before Semester Starts)

1/11 Lecture 1: Introduction, Syllabus, Kritik

Reading: Syllabus

1/16 Lecture 2: The Toolkit (Risk Aversion, Game Theory)

Reading: Hartzell, Parsons, Yermack (2010)

Problem Set 0 Due

1/18 Lecture 3: The Principal-Agent Model and Effort-Based Pay

Reading: Lazear (2000)

1/23 Lecture 4: The Performance Pay

Reading: Loyalka et. al. (2019)

1/25 Lecture 4: The Performance Pay (continued)

Reading: Larkin (2014)

1/30 Lecture 5: The Risk-Incentive Trade-Off

Reading: Gaynor and Gertler Rand (1995)

2/01 Lecture 6: Does Performance Pay Work?

Reading: Muralidharan and Sundararaman (2011)

Problem Set 1 Due

2/06 Lecture 7: Gaming the System

Reading: Asch (1990) and Oyer (1998)

2/08 Lecture 8: Relative Performance Evaluation

Reading: Holmstrom (1982) Moral Hazard in Teams Intro and Section 4

2/13 Lecture 9: Multitasking

Reading: Dumont et. al. (2008) and Lavy (2009)

2/15 No Class (Well-being Day)\

2/20 Lecture 10: You Get What You Measure

Reading 1: Alexander (2020) and Tayan (2019) Note: News article

Submit Questions for Midterm Review

2/22 Review

Reading: Gong et. al. (2021)

2/27 Midterm

2/29 Lecture 11: Relational Contracts

Reading: Cheveleir and Ellison (1998)

Problem Set 2 Due

3/05 Lecture 12: Career Concerns

Reading: Fee and Hadlock (2003)

3/07 Lecture 13: Tournaments/Promotions

Reading: Drago and Garvey (1998)

3/12 Lecture 14: Up or Out, Tenure and Making Partner

Reading: MacLeod and Urquiola (2021)

3/14 No Class (Spring Break)

3/19 No Class (Spring Break)

3/21 Lecture 15: Hold-Up

Reading: Klein, Crawford, Alchian (1978)

3/26 Lecture 16: Teamwork

Reading: Friebe, Heinz, Krueger, and Zubanov (2017)

Problem Set 3 Due

- 3/28 Lecture 17: Compensation Based on Education
Reading: Blair and Chung (2022)
- 4/02 No Class (Well-being Day)
- 4/04 Discrimination in Compensation I (if we have time)
Reading: Shepherd (2023) Note: News article
- 4/09 Guest Speaker Scott Ogle, CEO of TruLab at 12:30PM
Location TBD

Sign up to Meet with Guest Speaker if Interested

- 4/11 Discrimination in Compensation II (if we have time)
Reading: Bohren, Hull, Imas (2023) Note: not published yet
- 4/16 Stock Options as Compensation
Reading: Gong, Zhang, Zhou (2023) and Oyer, Schaefer (2005)

Problem Set 4 Due

- 4/18 Stock Options and Turnover (Guest lecture)
- 4/23 Health Insurance as Compensation (if we have time)

Submit Questions for Final Review

- 4/25 Final Review/Catch Up Day
- 4/30 Final Review
- 5/3 Final Exam for 2pm Section at 12pm
- 5/6 Final Exam for 12:30pm Section at 4pm

Supplementary Material: The primary resources for this class are the lectures, slides, and readings. I do not require a textbook but here are some supplementary books for those interested in further reading. These will be helpful for those interested in pursuing a PhD or master's in economics.

1. Milgrom, Paul Robert, John Roberts, and John Roberts. Economics, organization and management. Vol. 7. Englewood Cliffs, NJ: Prentice-hall, 1992.
2. Lazear, Edward, P., and Kathryn L. Shaw. 2007. "Personnel Economics: The Economist's View of Human Resources." *Journal of Economic Perspectives*, 21 (4): 91-114.
3. Gibbons, Robert, and John Roberts, eds. The handbook of organizational economics. Princeton University Press, 2013.

Easter Egg: For reading the syllabus, each student will receive one participation pass. To claim your participation pass, write your first and last name on a triangular shaped piece of paper with the last 4 digits of your UID and submit it only when the instructor mentions it during the first lecture. This pass means that if you are called once for participation, you will receive full credit if you are not present or choose not to answer.

Additional Statements and Resources

As stated in the University's Class Attendance Policy, no right or privilege exists that permits a student to be absent from any class meetings, except for these University Approved Absences:

1. Authorized University activities: University Approved Absence Office (UAAO) website provides information and FAQs for students and FAQs for faculty related to University Approved Absences
2. Disability/religious observance/pregnancy, as required by law and approved by Accessibility Resources and Service and/or the Equal Opportunity and Compliance Office (EOC)
3. Significant health condition and/or personal/family emergency as approved by the Office of the Dean of Students, Gender Violence Service Coordinators, and/or the Equal Opportunity and Compliance Office (EOC).

All students are expected to follow the guidelines of the UNC honor code. In particular, students are expected to refrain from “lying, cheating, or stealing” in the academic context. If you are unsure about which actions violate that honor code, please consult honor.unc.edu.

The instructor reserves the right to make changes to the syllabus, including project due dates and test dates. These changes will be announced as early as possible.

Accessibility Resources and Service (ARS – ars@unc.edu) receives requests for accommodations, and through the Student and Applicant Accommodations Policy determines eligibility and identifies reasonable accommodations for students with disabilities and/or chronic medical conditions to mitigate or remove the barriers experienced in accessing University courses, programs and activities.

UNC-Chapel Hill is strongly committed to addressing the mental health needs of a diverse student body. The Heels Care Network website is a place to access the many mental health resources at Carolina. CAPS is the primary mental health provider for students, offering timely access to consultation and connection to clinically appropriate services. Go to their website <https://caps.unc.edu/> or visit their facilities on the third floor of the Campus Health building for an initial evaluation to learn more. Students can also call CAPS 24/7 at 919-966-3658 for immediate assistance.

Any student who is impacted by discrimination, harassment, interpersonal (relationship) violence, sexual violence, sexual exploitation, or stalking is encouraged to seek resources on campus or in the community. Reports can be made online to the EOC at <https://eoc.unc.edu/report-an-incident/> or by contacting the University's Title IX Coordinator (Elizabeth Hall, titleixcoordinator@unc.edu) or the Report and Response

Coordinators in the Equal Opportunity and Compliance Office
(reportandresponse@unc.edu). Confidential resources include Counseling and
Psychological Services and the Gender Violence Services Coordinators (gvsc@unc.edu).
Additional resources are available at safe.unc.edu.