

Introduction to ECO381: Personnel Economics

Prof. Jasmin Kantarevic

Meetings and Contact

- Meetings Tuesdays and Thursdays
 AB 107
 5:10-7:00 PM Expected class time
 7:10-8:00 PM Office Hours (Tuesdays)
- Contact jasmin.kantarevic@oma.org
- Website www.jasminkantarevic.com/eco381

Course Material

- All material posted on the course website:

1. Slides

2. Readings

- Textbook (optional)
- Journal Articles (required – see syllabus for specific pages)

3. Problem Sets (for practice)

4. Past Exams (for practice)





ECO381 - Personnel Economics

[Syllabus](#)
[Grades](#)
[Past Tests](#)
[Main Page](#)

Announcements

- Welcome to ECO381 .
- Syllabus is available [here](#).

Last updated: May 14, 2017.

Course Material

DATE	TOPIC	READINGS	PROBLEM SETS	NOTES
May 16	Introduction	Review Material		
May 18	Basic Incentive Contract		Problem Set 1	
May 23	Incentives and Insurance		Problem Set 2	

Evaluation

	Weight	Date	Location	Duration
Midterm	20 or 30%	June 6	AB107	50 minutes
Paper	20 or 30%	June 22	AB107	
Final	50%	June 24-30	TBD	2 hours

- Better of midterm or paper counts out of 30%, worse out of 20%.
- Midterm is not optional (medical note required).

Research Paper

- A topic of your choice
- How principles of optimal contract design apply to the problem you study
- No research outside of the lectures and materials required
- Group:
 - can do it alone or in a group of up to 3 students
 - all students in the group receive same grade
- Format:
 - Word document, up to 2500 words
 - Hard and soft (e-mail) copy

Questions?



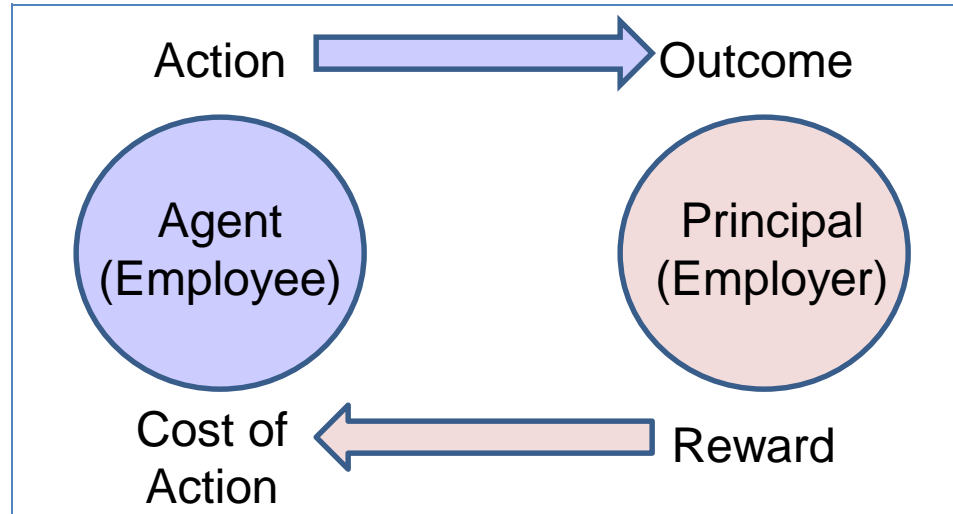
ECO381 – Problem Solving Course

- University professors seem less interested in teaching than in research.
- Less than $\frac{1}{2}$ of people in Ontario can see a family physician on the same or next day when they are sick.
- Maple Leafs did not win the Stanley Cup since 1967.
- Toronto has one of the worst traffic congestion problems in North America.
- Construction companies never seem to be on time or budget.

Thinking about the Problem

- Many problems can be interpreted as ‘employment’ relationships
- Employment relationships have a common structure:
 - The employee provides a costly action (e.g. days of work) that affects an outcome that the employer cares about (e.g. profit) in exchange for a reward (e.g. salary)
- This structure is known as principal-agent relationship

Principal-Agent Relationship



- The agent takes an action
- The action affects an outcome the principal cares about
- The action is costly to the agent
- The principal rewards the agent for his action

P-A Relationship: Examples

Principal	Agent	Outcome
University Dean	Professor	Teaching
Ministry of Health	Family Physician	Wait time to see a doc
Maple Leafs CEO	ML Coach	Winning the Stanley Cup
Voters	City council	Smooth traffic flow
Owner	Construction company	Completing on time and budget

Moral Hazard

- Moral Hazard occurs when:
 1. Principal cannot observe agent's action
 2. Principal and agent have conflicting goals



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P cannot simply tell
A what to do



**Inefficient
Outcome!**

Potential Solutions to Moral Hazard

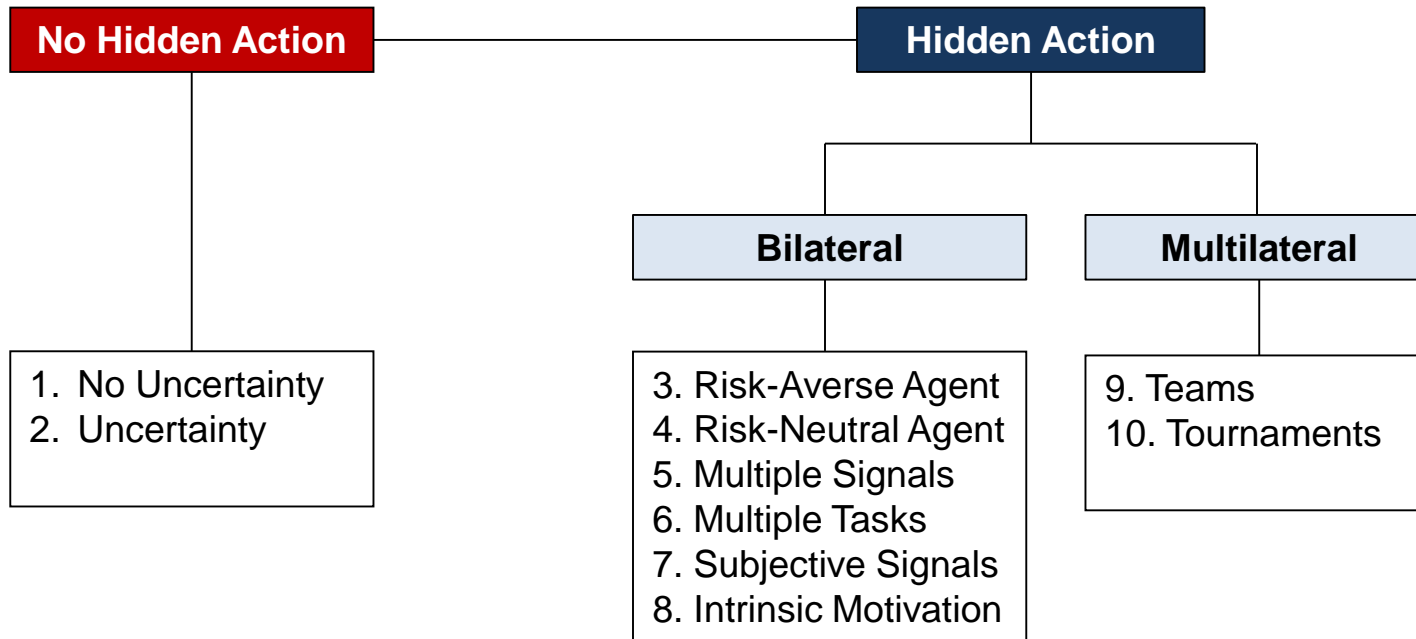
1. Do-it-yourself
2. Monitoring
- 3. Incentive contracts**
 - Provide incentives to agent to take right action
 - How agents get paid matters!

Road Ahead

- Study three main incentive contracts
 1. Bilateral P4P contracts
 2. Teams
 3. Tournaments

- For each contract, three main questions:
 1. How does the contract work?
 2. When is it likely to work?
 3. Does it work in practice?





Questions?

