

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

Personnel Economics

HRIR 5062 (2 credits)
Fall 2009, B term
5:45-9:05 p.m. Wednesdays
1-132 Carlson School of Management

Professor John W. Budd
3-300T Carlson School of Management
(612) 624-0357
jbudd@umn.edu
Office Hours: Wednesdays 4:30-5:30 p.m.
and 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.
- **Analyze** human resource management issues using economic theories.
- **Understand** the limitations of personnel economics.

Required Materials

William S. Neilson (2006) *Personnel Economics* (Upper Saddle River, NJ: Pearson Education).
[Available for purchase at the bookstore or online]

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

Grading

Application Paper	December 2, 2009	30%
WikiRasu on Moodle	December 11, 2009	30%
Exam	December 16, 2009	40%

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 Wednesday, December 2, 2009. 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.

Put your id number 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. When citing references, 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. 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.

There are three options for the application paper:

1. Watch the movie *Glengarry Glen Ross* (1992) and analyze the elements of the movie that are consistent with the assumptions and predictions of personnel economics, and the elements that are inconsistent with the assumptions and predictions of personnel economics. *Glengarry Glen Ross* should be available for rent at many video rental stores, and it can be rented online at iTunes. Warning: the language in the movie is quite strong and may be offensive to some. Other movies can be substituted for *Glengarry Glen Ross* with prior approval from Professor Budd by November 20.
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 November 20 you must e-mail Professor Budd a description of the specific situation to be analyzed, and subsequently receive approval.

WikiRasu on Moodle: A research article summary (“Rasu”) must be completed in the assigned Wiki area of the Moodle course website (hence, “WikiRasu on Moodle”) by 4:00 p.m. on December 11, 2009. The class will be divided into small groups and each group assigned a research article. Each group is required to write a summary of this article that presents the article’s motivation, main questions, theoretical approach, empirical approach, main results, and the implications for both research and practice. This research article summary should be done as a Wiki. To get you started, the article’s abstract has been posted in the group’s Wiki. Group members must edit the Wiki to replace the abstract with the group’s WikiRasu. The Wiki software allows the group members to collaboratively continue to refine the WikiRasu until the assignment deadline. The course website provides a sample WikiRasu written by Professor Budd and a grading rubric.

Exam: An in-class exam on December 16, 2009. 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.

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. Make honest contributions to your group projects (do not be a free rider).

Preparation. Come to class prepared to listen, learn, and participate. Attend group meetings prepared to make full contributions and to help other group members make valuable contributions.

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 and your group members.

Attentiveness. Turn off and do not answer your cell phone. Laptop computers are welcome for class-related purposes such as note taking. Other activities are inappropriate and exhibit disrespect towards the professor and other students. Limit individual conversations and other distractions to break times. Focus on the tasks at hand during group meetings.

Timeliness. Complete assignments on time. Be on time for group meetings and 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

Week 1 (October 28)

William S. Neilson (2006) *Personnel Economics* (Upper Saddle River, NJ: Pearson Education), chapters 1-3.

II. Pay for Performance

Week 2 (November 4)

Neilson (2006) *Personnel Economics*, chapters 4-7.

III. Additional Incentive Mechanisms and Issues

Week 3 (November 11)

Neilson (2006) *Personnel Economics*, chapters 9-12.

IV. Performance Evaluation

Week 4 (November 18)

Guest Speaker, TBA

Neilson (2006) *Personnel Economics*, chapters 13-14.

V. Self-Check and Individualized Applications (no class)

Week 5 (November 25)

Work on application paper and WikiRasu

VI. Selection, Training, and Human Capital

Week 6 (December 2)

Neilson (2006) *Personnel Economics*, chapters 15 and 19.

VII. Conclusion—The Limits of Personnel Economics

Week 7 (December 9)

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

John W. Budd (2009) *The Thought of Work*, unpublished manuscript, chapter 11.

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

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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.