

PROBLEM SET THREE--ECON 3720

- ❶ When are tournaments optimal for promotion? What are the benefits of tournaments relative to a promotion standard. Discuss the effects of the *spread & expected compensation*. What happens as individuals move up an organization's hierarchy?
- ❷ What are the gains from *back loading* pay, & what was the effect of eliminating mandatory retirement?
- ❸ Why would a firm pay benefits and not simply straight pay?
- ❹ In general, who becomes an entrepreneur? Suppose a specialist has income $SI = \max(x_1, x_2)$, & an entrepreneur has income $EI = \lambda \min(x_1, x_2)$, $\lambda > 1$, $x_1 > x_2$, with x_1 & x_2 the levels of skills 1 & 2 possessed by the individual. For what values of λ will the individual choose to be an entrepreneur?
- ❺ What are the costs & benefits of worker empowerment, & will a firm choose the level of empowerment that maximizes total firm value?