



Michael Waldman One-Day Lecture on Internal Labor Markets

Date: **Wednesday, October 31, 2018**

Venue: **Sano-Shoin**, Hitotsubashi University (Kunitachi Campus)
2-17-35, Naka, Kunitachi, Tokyo

Instructor: Professor Michael Waldman (Cornell University)

10:00	Registration open
10:25	Welcome: Hodaka Morita (Hitotsubashi University)
10:30 - 13:00	Morning Lecture
13:00 - 14:00	Lunch
14:00 - 15:30	Afternoon Lecture
15:30 - 15:50	Coffee Break
15:50 - 17:20	Afternoon Lecture
17:20	Closing
	Adjourn
17:30 - 19:30	Discussion and Reception (Buffet style)

Syllabus

SUMMARY

Starting with the work of Gary Becker, Edward Lazear, and Sherwin Rosen, economists have investigated both theoretically and empirically the workings of internal labor markets. Professor Waldman will cover both classic and more recent papers on this subject focusing on human capital theory, job assignment models, and the role of promotion in incentive provision. Although most of the focus will be on theoretical contributions, there will also be a discussion of how the various theories are related to the main findings in the empirical literature.

Specific topics that will be covered include: i) why firms invest in general human capital; ii) implications of the task-specific perspective on human capital accumulation; iii) the signaling role of promotions; and iv) classic and market-based approaches to the incentive role of promotions.



COURSE OUTLINE AND READINGS

OVERVIEW PAPERS

- Gibbons, R. and M. Waldman, "Careers in Organizations: Theory and Evidence," in O. Ashenfelter and D. Card, eds., *Handbook of Labor Economics, Volume 3*, North-Holland, 1999, pp. 2373-2437.
- Lazear, E. and P. Oyer, "Personnel Economics," in R. Gibbons and J. Roberts, eds., *Handbook of Organizational Economics*, Princeton University Press, 2012, pp. 479-519.
- Waldman, M., "Theory and Evidence in Internal Labor Markets," in R. Gibbons and J. Roberts, eds., *Handbook of Organizational Economics*, Princeton University Press, 2012, pp. 520-574.

Papers with a ** below are papers that will be covered in some detail, while those with a * will be covered but in less detail. Other papers listed are important related papers some of which will be briefly mentioned.

1. Human Capital Theory

- *Becker, G., "Investment in Human Capital: A Theoretical Analysis," *Journal of Political Economy*, October 1962.
- Chang, C. and Y. Wang, "Human Capital Investment Under Asymmetric Information: The Pigovian Conjecture Revisited," *Journal of Labor Economics*, July 1996.
- Acemoglu, D. and J. Pischke, "Why do Firms Train: Theory and Evidence," *Quarterly Journal of Economics*, February 1988.
- **Acemoglu, D. and J. Pischke, "The Structure of Wages and Investment in General Training," *Journal of Political Economy*, June 1999.
- **Gibbons, R. and M. Waldman, "Task-Specific Human Capital," *American Economic Review*, May 2004.
- *Gathmann, C. and U. Schoenberg, "How General is Human Capital? A Task-Based Approach," *Journal of Labor Economics*, January 2010.

2. Static Job Assignment Models

- **Sattinger, M., "Comparative Advantage and the Distribution of Earnings and Abilities," *Econometrica*, May 1975.
- Lucas, R.E., "On the Size Distribution of Business Firms," *Bell Journal of Economics*, Autumn 1978, pp. 508-523.
- **Rosen, S., "Authority, Control, and the Distribution of Earnings," *Bell Journal of Economics*, Autumn 1982.
- Waldman, M., "Worker Allocation, Hierarchies, and the Wage Distribution," *Review of Economic Studies*, January 1984.
- *Garicano, L., "Hierarchies and the Organization of Knowledge in Production," *Journal of Political Economy*, October 2000.
- Garicano, L. and T.N. Hubbard, "Managerial Leverage is Limited by the Extent of the Market: Hierarchies, Specialization, and the Utilization of Lawyers' Human Capital," *Journal of Law and Economics*, February 2007.

3. Dynamic Job Assignment Models

- *MacDonald, G.M., "A Market Equilibrium Theory of Job Assignment and Sequential Accumulation of Information," *American Economic Review*, December 1982.
- **Waldman, M., "Job Assignments, Signalling, and Efficiency," *Rand Journal of Economics*, Summer 1984.
- *Kahn, C. and G. Huberman, "Two-Sided Uncertainty and Up-or-Out Contracts," *Journal of Labor Economics*,



October 1988.

*Baker, G., M. Gibbs, and B. Holmstrom, "The Internal Economics of the Firm: Evidence from Personnel Data," *Quarterly Journal of Economics*, November 1994.

*Baker, G., M. Gibbs, and B. Holmstrom, "The Wage Policy of a Firm," *Quarterly Journal of Economics*, November 1994.

**Gibbons, R. and M. Waldman, "A Theory of Wage and Promotion Dynamics Inside Firms," *Quarterly Journal of Economics*, November 1999.

*DeVaro, J. and M. Waldman, "The Signaling Role of Promotions: Further Theory and Empirical Evidence," *Journal of Labor Economics*, January 2012.

*Lazear, E., "Entrepreneurship," *Journal of Labor Economics*, October 2005.

Frederiksen, A. and T. Kato, "Human Capital and Career Success: Evidence from Linked Employer-Employee Data," *Forthcoming Economic Journal*.

**Jin, X. and M. Waldman, "Lateral Moves, Promotions, and Task-Specific Human Capital: Theory and Evidence," mimeo, Cornell University, 2018.

4. Promotion Incentives – The Classic Approach

*Lazear, E. and S. Rosen, "Rank-Order Tournaments as Optimum Labor Contracts," *Journal of Political Economy*, October 1981.

*Rosen, S., "Prizes and Incentives in Elimination Tournaments," *American Economic Review*, September 1986.

*Lazear, E., "Pay Equality and Industrial Politics," *Journal of Political Economy*, June 1989.

*Waldman, M., "Ex Ante Versus Ex Post Optimal Promotion Rules: The Case of Internal Promotion," *Economic Inquiry*, January 2003.

5. Promotion Incentives –The Market Based Approach

*Zabojnik, J. and D. Bernhardt, "Corporate Tournaments, Human Capital Acquisition, and the Firm Size-Wage Relation," *Review of Economic Studies*, July 2001.

**Ghosh, S. and M. Waldman, "Standard Promotion Practices versus Up-or-Out Contracts," *Rand Journal of Economics*, Summer 2010.

*Waldman, M., "Classic Promotion Tournaments Versus Market Based Tournaments," *International Journal of Industrial Organization*, May 2013.

*DeVaro, J. and A. Kauhanen, "An 'Opposing Responses' Test of Classic Versus Market-Based Promotion Tournaments," *Journal of Labor Economics*, July 2016.

*Ekinci, E., A. Kauhanen, and M. Waldman, "Bonuses and Promotion Tournaments: Theory and Evidence," *Forthcoming Economic Journal*.



ADDITIONAL PAPERS

Lazear, E., “Firm-Specific Human Capital: A Skill-Weights Approach,” *Journal of Political Economy*, October 2009, pp.914-940.

Ghosh, S. and M. Waldman, “Standard Promotion Practices Versus Up-or-Out Contracts,” *Rand Journal of Economics*, Summer 2010, pp.301-325.

Waldman, M., “Classic Promotion Tournaments Versus Market-Based Tournaments,” *International Journal of Industrial Organization*, May 2013, pp.198-210.

Ekinci, E., A. Kauhanen, and M. Waldman, “Bonuses and Promotion Tournaments: Theory and Evidence,” *Economic Journal*, Forthcoming.

Jin, X., and M. Waldman, “Lateral Moves, Promotions, and Task-Specific Human Capital: Theory and Evidence,” mimeo, revised 2018.