Questions you should be able to answer after doing the reading and attending class

1. Why can turnover be seen as mutually undesirable for both employees and employers? If neither like turnover, why does it occur?

2. Show how two frameworks discussed in both the book and class explain why earnings increase over time. What is the explanation for earnings flattening out towards the end of one’s career?

3. What was the logic behind the imposition of mandatory retirement?

4. How does the lifetime earnings schedule help reduce the employer’s cost of monitoring its employees?

5. Contracts must generate a surplus for both parties in order to be self-enforcing. What are the sources of surplus for employees and for employers that make the lifetime earnings schedule a self-enforcing contract?

6. Why can it be argued that the lifetime earnings schedule is both a market-determined and internal labor market generated outcome?

7. Discuss the relative advantages and disadvantages to piece-work and time-based compensation.

8. Using the efficiency wage framework, what would the efficiency wage framework predict about worker behavior?

9. What are the two factors, other than the bonus at the end and best alternative pay, that go into the worker decision to shirk?