



**Examination: Human Resource Management – Final Exam (WT 2004/05)**

Examiner: Prof. Dr. B. Wolff, Course No.: 1524/5076

Please note that in the final exam at hand, you will have 2 hours to solve the problems worth a maximum of 70 points. Please consider the following general advice:

1. Use the theoretical tools and terminology you have learned in class and from the textbook.
2. Make sure there is a clear structure in your argument (Use some time to sort your ideas before you start writing the version you want to submit, esp. if you answer B).
3. Use the time you have! If you are ready much earlier than we planned you should ask yourself whether you forgot something
4. Remember people have to be able to decipher what you write
5. Leave a margin for our comments, so we can give you a more detailed feedback than just the number of points
6. Each main question has sub-questions. Answer each one explicitly.

**Examination Questions:**

**Please solve either problem(s) A or B (maximum 70 points):**

You are welcome to use a dictionary and a calculator.

**A) Please answer only 7 out of the following 9 questions:**

**1. Recruiting (max. 10 points)**

Name the decisive criterion for selecting between different candidates for a vacant position and point out the problems this may entail. Explain in this context the aim(s) of and difference between 'screening', 'signaling' and 'self-selection'. Give practical examples for each of these mechanisms.

**2. Tournaments and Promotions (max. 10 points)**

Please elaborate on the pros and cons of internal promotions as opposed to hiring outsiders.

**3. Seniority Wages (max. 10 points)**

Describe and explain graphically and verbally the mechanism behind seniority wage schemes. Additionally, elaborate on why mandatory retirement is an important complement to such schemes and on when retirement is efficient.

**4. Buyout Plans (max. 10 points)**

Assume the demand for the widgets your firm sells significantly decreases due to a substitute product being launched. In order to avoid incurring losses you have to "downsize" your firm to economize on labor costs. You will need to separate from the least productive employees, which happen to be the oldest. Your idea is to offer these employees a buyout plan that will induce them to leave the firm voluntarily. The dataset below is available. Please provide a general, analytical description and a verbal explanation of what variables have a say in determining a firm's buyout offer and of when such an offer will be accepted by employees. Subsequently, please apply these general conditions to the given case by calculating how the buyout offers for each specific age group would look like and by showing what would happen accordingly.

Age	Present value of decreased productivity	Present value of wages	Present value of alternatives
60	49,000	50,000	48,000
61	48,000	48,800	47,500
62	46,000	47,400	46,200
63	44,000	46,400	44,500
64	42,000	45,200	43,000

**5. Recruiting (max. 10 points)**

Suppose you have the choice between two candidates for a job in the sales department. Jones and Stevens by name, who both are 33 years old. You are certain that Stevens will generate yearly sales worth € 170,000 up until her retirement. Contrarily, Jones' output is somewhat more difficult to stipulate ex ante. You assess her sales talent by using probabilities. With a probability of 50% she will generate a sales worth of € 300,000. In all other cases, she is, however, expected to produce a loss of € 25,000 annually. Assume that mandatory retirement happens at the age of 65, that both cost a salary of € 39,000, that the interest rate is zero and that you do have the option to cancel Jones' contract after one year. Calculate and explain whom of the two candidates you would hire. Would you alter your decision in case the probability of Jones' becoming a top-performer increases by 5%? Calculate and explain why.

*Please turn to page*

**6. Reengineering (max. 10 points)**

Describe the idea of reengineering as a specific form of change initiative. Elaborate on why the implementation of plans promising firm performance improvements nonetheless frequently fails in practice. Give practical examples to underscore your arguments. State also why communication plays a vital role in making change programs succeed and what topic(s) should be emphasized when communicating change plans.

**7. Compensation: Variable Pay or Straight Salary (max. 10 points)**

Please assume a scenario in which salespeople have the choice between two firms with transparent compensation policies. While firm A offers an output-based compensation of € 300 per sold kloyck, firm B pays a fixed salary of € 1.200 per week. Please explain briefly the two main effects of output-based pay. Analytically describe the compensation schemes of firm A and B and quantify what will happen to the firm's respective labor costs per sold item as long as there are no monitoring costs. Show graphically and explain what happens if monitoring costs for firm A increase to € 100 per piece? (Remember that the costs of monitoring will have to be covered by the workers' production.)

**8. Effects of Institutional Frameworks (max. 10 points)**

Explain how alternative institutional frameworks result in different allocations of costs, benefits, and risks between Individuals, Firms and State. Elaborate why and how the allocation of these property rights has effects on managerial decision-making in HRM.

**9. Trust in Work Relations (max. 10 points)**

Explain the notion of trust according to David Kreps' "trust game". Why do economists tend to think of trust as an implicit contract which can be superior to explicit contracting under certain conditions?

**B) Essay (max. 70 points)**

Explain Lincoln Electric's famous compensation scheme from a personnel economics perspective. Also comment on limits to its application in an MNC.

**Good Luck!**