

Econ 490: Compensation in Organizations
Instructor: Jacob Kohlhepp

Summary: How people are paid can make or break an organization. This course studies organizational economics, with a focus on how compensation shapes work within organizations. Using a workhorse game theoretic model, case studies and recent empirical work in economics and management, students will learn how pay can help or hurt effort, teamwork, multitasking, and much more. This course will be useful for students interested in consulting, human resource analytics or starting their own company. A background in game theory is not required.

Credit Hours: 3

Target Audience: This course is meant to satisfy a 400-level elective requirement for the Economics Major, B.A., the Economics Major, B.S., and the Economics Minor. Additionally, this course can be taken to fulfill the requirements of the Entrepreneurship Minor.

Lecture Times: Monday through Friday 1:15pm - 4:30pm

Lecture Location:

Office Hours: Tues/Wed/Thurs 4:30pm-5:30pm, Thurs 12-1pm

Office Hours Location: Gardner 104F

Final Exam Date and Time for Section 001: April 30th, 2026 from 12pm-3pm

Final Exam Location (for both sections):

Final Exam Date and Time for Section 002: May 5, 2026 from 4pm-7pm

Final Exam Location (for both sections):

Email: kohlhepp@unc.edu (Please read contact policy before emailing)

Email and Contact Policy: Please post all questions related to course content, logistics, etc. on the appropriate Canvas forum to avoid repetition. Post logistical questions to the discussion thread labeled “Logistics” and content questions to the thread labeled “Content.” I will not answer emails about these types of questions. Please submit all absence requests/excuses, late submission requests, or grade disputes to this Google form:

<https://forms.gle/1mqBzvX1PMtbBLrJA>

Please use email only for urgent requests, emergencies or to contact me after the class is over for non-class related subjects (career questions, advice, etc.). I will not answer emails that are

best directed to the course forum or the personal request form. I will attempt to answer questions on the forum and personal request Google form within 48 hours.

Course Prerequisites: Economics 400 and 410 are prerequisites for this course. Exposure to game theory and econometrics from other courses is also helpful but not required.

Grading: This course will use one of two grading schemes, whichever gives you a higher raw score.

1. 70% final, 30% midterm.
2. 45% final, 30% midterm, 15% problem sets, 10% participation.

After computing your maximum raw score using rule 1 or 2, all students that achieve a minimum score will get a minimum grade of a C. As and Bs will be distributed based on the historical grade distribution of UNC Chapel Hill 400-level electives.

Please note that:

- Because a passing grade of a C is awarded to all students who are above a minimum threshold, you will not fail this course due to the curve.
- Because the class is curved, your absolute score is not very informative about your class performance. However, your relative score is useful. If you are regularly scoring significantly below your classmates on problem sets or the midterm this is a sign that you should come to office hours and talk to classmates to better understand the material.
- For example, if you get a 51% on the midterm and the median was 40% you should consider your score to be quite good. But if the median was 70% you may need to come seek additional support.

Late Submissions: Unless you have a university approved absence, all assignments turned in after the due date will be considered late. Late work will receive a 10 percentage point penalty per day it is late.

Academic Dishonesty: All instances of academic dishonesty including but not limited to using unauthorized aids on exams, will be reported to the Office of Student Conduct. Additionally, the student will receive a 0 on that assignment.

Attendance and Participation: I will not take attendance. However, we will briefly discuss the readings during each class. I will randomly ask a few students to answer questions about the readings. As long as you are present and say something based on the readings you will get 100%. If you are absent due to a university approved absence (see the additional statements and sources section) please submit the personal request form and if your name comes up it will be deferred to the next class.

Note on readings: In order to encourage reading, I will put a few very simple questions on exams. All readings for this class are provided for free as part of the course materials. There is no required textbook.

Tentative Schedule

1/8 (Thu)	Lecture 1: Introduction and Syllabus Review <i>Reading: Syllabus</i>
1/13 (Tue)	Lecture 2: The Toolkit (Risk Aversion, Game Theory) <i>Reading: Lazear (2000)</i>
1/15 (Thu)	Lecture 3: The Principal-Agent Model and Effort-Based Pay <i>Reading: Loyalka et. al. (2019)</i>
1/20 (Tue)	Lecture 4: Performance Pay <i>Reading: Hartzell, Parsons, Yermack (2010)</i>
1/22 (Thu)	Lecture 5: The Risk-Incentive Trade-Off <i>Reading 1: Drago and Garvey (1998)</i> <i>Reading 2: Gaynor and Gertler (1995)</i>
1/27 (Tue)	Lecture 6: Does Performance Pay Work? <i>Reading 1: Lavy (2009)</i> <i>Reading 2: Muralidharan and Sundararaman (2011)</i>
1/29 (Thu)	Lecture 7: Relative Performance Evaluation <i>Reading: Gibbons and Murphy (1990)</i>
2/3 (Tue)	Lecture 8: Meaning and Performance <i>Reading: Ashraf, Bandiera, Minni and Zingales (2025)</i> Problem Set I Due 2/3 By 11:59 PM EST
2/5 (Thu)	Review for Midterm and Catch Up
2/10 (Tue)	Midterm
2/12 (Thu)	Lecture 9: Gaming the System <i>Reading: Larkin (2014)</i> <i>Reading: Courty, Marschke (2004)</i>
2/17 (Tue)	Lecture 10: Multitasking 1 <i>Reading 1: Dumont et. al. (2008)</i> <i>Reading 2: Alexander (2020)</i>
2/19 (Thu)	Lecture 11: Wells Fargo and Multitasking <i>Readings: Tayan (2019) Note: News article</i>
2/24 (Tue)	Finish Multitasking <i>Reading: Ockenfels, Sliwka, Werner (2024)</i>
2/26 (Thu)	Lecture 12: Teamwork <i>Reading 1: Hamilton, Nickerson, and Owan (2003)</i>

Reading 2: Friebel, Heinz, Krueger, and Zubanov (2017)

3/3 (Tue) Finish Teamwork, Lecture 13: Promotions and Tournaments

Reading: Bandiera et. al. (2005)

3/5 (Thu) Lecture 14: Relational Contracts

Readings: Chevaleyre and Ellison (1998)

Problem Set 2 Due 3/5 By 11:59 PM EST

3/10 (Tue) Finish Relational Contracts, Start Lecture 15: Career Concerns

Reading: Coviello, deserranno, Persico (2022)

3/12 (Thu) Finish Lecture 15: Career Concerns

Reading: Fee and Hadlock (2003)

3/17 (Tue) — Spring Break (no classes)

3/19 (Thu) — Spring Break (no classes)

3/24 (Tue) Lecture 16: Knowledge as Performance Pay (and Generative AI)

Reading 1: Garicano (2025 - Blog Post fro Silicon Continent)

Reading 2: Garicano and Rayo (2025 - intro only)

3/26 (Thu) Lecture 17: Up or Out, Tenure and Making Partner

Reading: MacLeod and Urquiola (2021)

3/31 (Tue) Lecture 18: Hold-Up

Optional Reading: Klein, Crawford, Alchian (1978)

4/2 (Thu) — Wellness Day (no classes)

4/7 (Tue) — Scot Ogle Guest Lecture (attendance is part of grade)

4/9 (Thu) Lecture 19: Stock Options as Compensation

Reading 1: Gong, Zhang, Zhou (2023)

Reading 2: Oyer and Schaefer (2005)

4/14 (Tue) Lecture 20: Bargaining Over Pay (if time allows)

Reading: Caldwell, Haegle and Heinrich (2025)

4/16 (Thu) Lecture 21: Compensation Based on Education

Reading 1: Blair and Chung (2022)

Reading 2: Aryal et. al. (2022)

4/21 (Tues) Lecture 22: Pay Transparency

Reading: Cullen (2024)

Problem Set 3 Due 4/21 By 11:59 PM EST

4/23 (Thu) Review Session

4/30 Final Exam for Section 001 (2:00pm lecture time): 12pm-3pm

5/5 Final Exam for Section 002 (3:30pm lecture time): 4pm-7pm

Supplementary Material: The primary resources for this class are the lectures, slides, and readings. I do not require a textbook but here are some supplementary books for those

interested in further reading. These will be helpful for those interested in pursuing a PhD or master's in economics.

1. Milgrom, Paul Robert, John Roberts, and John Roberts. Economics, organization and management. Vol. 7. Englewood Cliffs, NJ: Prentice-hall, 1992.
2. Lazear, Edward, P., and Kathryn L. Shaw. 2007. "Personnel Economics: The Economist's View of Human Resources." *Journal of Economic Perspectives*, 21 (4): 91-114.
3. Gibbons, Robert, and John Roberts, eds. The handbook of organizational economics. Princeton University Press, 2013.

Easter Egg: For reading the syllabus and finding this easter egg, each student will receive one participation pass. To claim your participation pass, write your first and last name on a triangular shaped piece of paper with the last 4 digits of your UID and submit it only when the instructor mentions it during the first lecture. This pass means that if you are called once for participation, you will receive full credit if you are not present or choose not to answer.

Syllabus Changes

The instructor reserves the right to make changes to the syllabus including project due dates and test dates. These changes will be announced as early as possible.

Additional Statements and Resources

University Attendance Policy

As stated in the University's [Class Attendance Policy](#), no right or privilege exists that permits a student to be absent from any class meetings, except for these University Approved Absences:

1. Authorized University activities: [University Approved Absence Office \(UAAO\)](#) website provides information and [FAQs for students](#) and [FAQs for faculty](#) related to University Approved Absences
2. Disability/religious observance/pregnancy/short-term military service, as required by law and approved by the [Equal Opportunity and Compliance Office](#) (EOC), or in the case of short-term military service, the Dean of Students
3. Significant health condition and/or personal/family emergency as approved by the [Office of the Dean of Students](#), [Gender Violence Service Coordinators](#), and/or the [Equal Opportunity and Compliance Office](#) (EOC).

Code of Conduct

All students are expected to adhere to University policy and follow the guidelines of the UNC

Code of Conduct. Additional information can be found at <https://studentconduct.unc.edu/>.

Artificial Intelligence (AI) Use Policy

Students should feel free to use generative AI to study for this course. Students may not use generative AI for exams or graded problem sets. Additionally, I ask that students not copy my graded materials into online generative AI websites, as these websites retain this information in some cases. For additional guidelines please refer to: [Student Use Guidelines for Generative AI](#).

Acceptable Use Policy

By attending the University of North Carolina at Chapel Hill, you agree to abide by the University of North Carolina at Chapel Hill policies related to the acceptable use of IT systems and services. The Acceptable Use Policy (AUP) sets the expectation that you will use the University's technology resources responsibly, consistent with the University's mission. In the context of a class, it's quite likely you will participate in online activities that could include personal information about you or your peers, and the AUP addresses your obligations to protect the privacy of class participants. In addition, the AUP addresses matters of others' intellectual property, including copyright. These are only a couple of typical examples, so you should consult the full [Information Technology Acceptable Use Policy](#), which covers topics related to using digital resources, such as privacy, confidentiality and intellectual property.

Additionally, consult the [Safe Computing at UNC](#) website for information about data security policies, updates, and tips on keeping your identity, information, and devices safe.

Data Security and Privacy

UNC-Chapel Hill is committed to fulfilling its responsibilities of transparency as a state-sponsored institution of higher learning, protecting certain types of information, and using information Carolina collects only for appropriate purposes. Consult the [UNC-Chapel Hill Privacy Statement](#) for additional information.

Grade Appeal Process

If you have any concerns with grading and/or feel you have been awarded an incorrect grade, please discuss it with me as soon as possible. Please submit a request to the personal request form. I reserve the right to regrade the entire assignment, which may result in an increase or decrease in your grade. If we cannot resolve the issue, you may talk to our director of undergraduate studies or department chair.

Equal Opportunity and Compliance - Accommodations

Equal Opportunity and Compliance Accommodations Team ([Accommodations - UNC Equal Opportunity and Compliance](#)) receives requests for accommodations for disability, pregnancy and related conditions, and sincerely held religious beliefs and practices through the University's Policy on Accommodations. EOC Accommodations team determines eligibility and reasonable accommodations consistent with state and federal laws.

Counseling and Psychological Services (CAPS)

UNC-Chapel Hill is strongly committed to addressing the mental health needs of a diverse student body. The [Heels Care Network](#) website is a place to access the many mental health resources at Carolina. CAPS is the primary mental health provider for students, offering timely access to consultation and connection to clinically appropriate services. Go to the [CAPS website](#) or visit their facilities on the third floor of the Campus Health building for an initial evaluation to learn more. Students can also call CAPS 24/7 at 919-966-3658 for immediate assistance.

Title IX and Related Resources

Any student who is impacted by discrimination, harassment, interpersonal (relationship) violence, sexual violence, sexual exploitation, or stalking is encouraged to seek resources on campus or in the community. Reports can be made [online to the EOC](#) or by contacting the University's Title IX Coordinator, Elizabeth Hall, or the Report and Response Managers in the Equal Opportunity and Compliance Office. Please note that I am designated as a Responsible Employee, which means I must report to the EOC any information I receive about the forms of misconduct listed in this paragraph. If you'd like to speak with a confidential resource, those include Counseling and Psychological Services, the University's Ombuds Office, and the Gender Violence Services Coordinators. Additional resources are available at [safe.unc.edu](#).

Policy on Non-Discrimination

The University is committed to providing an inclusive and welcoming environment for all members of our community and to ensuring that educational and employment decisions are based on individuals' abilities and qualifications. Consistent with this principle and applicable laws, the University's [Policy Statement on Non-Discrimination](#) offers access to its educational programs and activities as well as employment terms and conditions without respect to race, color, gender, national origin, age, religion, sex, genetic information, disability, veteran's status, sexual orientation, gender identity or gender expression. Such a policy ensures that only relevant factors are considered, and that equitable and consistent standards of conduct and performance are applied.

If you are experiencing harassment or discrimination, you can seek assistance and file a report through the Report and Response Coordinators (email reportandresponse@unc.edu or see additional contact info at [safe.unc.edu](#)) or the [Equal Opportunity and Compliance Office](#). Please

note that I am designated as a Responsible Employee, which means that I must report to the EOC any information I receive about harassment or discrimination. If you'd like to speak with a confidential resource, those include Counseling and Psychological Services and the University's Ombuds Office.

Undergraduate Testing Center

The College of Arts and Sciences provides a secure, proctored environment in which exams can be taken. The Center works with instructors to proctor exams for their undergraduate students who are not registered with ARS and who do not need testing accommodations as provided by ARS. In other words, the Center provides a proctored testing environment for students who are unable to take an exam at the normally scheduled time (with pre-arrangement by your instructor). For more information, visit the [testing center website](#).