Lecture 10: Wells Fargo and Multitasking

Compensation in Organizations

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Discussion: Tayan (2019)

(Note: popular press article not peer reviewed research)

Modeling Wells Fargo: Destructive Effort

- Output depends on a productive and destructive task:

$$y = 1 + ae_1 - be_2, a > 0, b > 0$$

- The 1 is just profit from operating at all.
- The cost of effort is:

$$c(e_1, e_2) = (e_1^2 + e_2^2)/2$$

- We measure and pay only based on total effort:

$$m = e_1 + e_2$$

$$w(m) = \alpha + \beta m$$

Destructive Effort

Solve: in the notes!

Modeling Wells Fargo: Destructive Effort

Theorem 1

If marginal destruction outweighs marginal production ($a - b > 0$) the optimal wage is $\beta^* = (a - b)/2$. If not, the firm pays a flat salary: $\beta^* = 0$.

- Incentives are not always optimal.
- Sometimes a flat salary is more profitable.
- How does this relate to gaming?
- How is it different?
- If the firm can prohibit e_2, everything is "resolved."

Wells Fargo and the Model

- Destructive task: opening fake accounts.
- Productive task: opening real accounts.

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Discussion: Alexander (2020)

Alexander (2020): Comorbidity of Admitted Patients

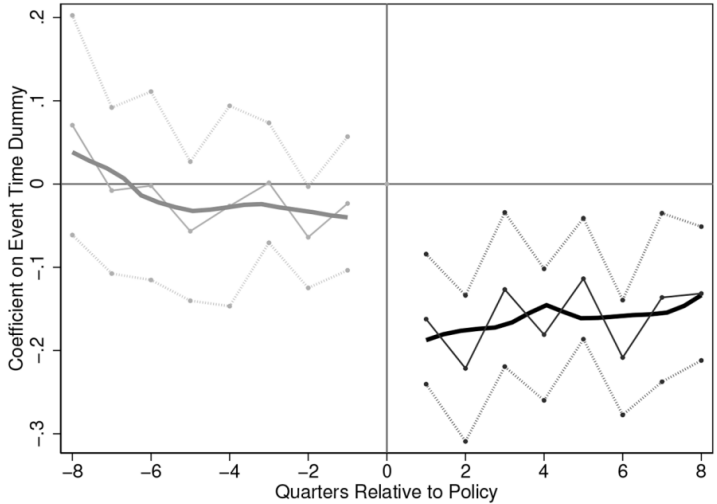

FIG. 8.—Healthier patients sent to participating hospitals: Charlson comorbidity index for medical patients. Event study plot created by regressing the Charlson comorbidity index on a full set of event time indicators, as well as hospital, quarter, type (APR-DRG by SOI), and doctor fixed effects. Plotted are the coefficients on the event time indicators,