

Lecture 16: Knowledge as Compensation

Compensation in Organizations

Jacob Kohlhepp

February 5, 2026

Discussion

Garicano and Rayo (2025)
(Not Yet Published)

Discussion

Garicano (2025)
(Blog Post on Silicon Continent)

Medieval Apprentices and Generative AI?

- ▶ Smart people are willing to do grunt work. What are examples?
- ▶ It is hard to get firms to provide general training to workers. Why?
- ▶ How does this connect to medieval apprenticeships?
 - ▶ Entry-level workers reap the gains of training through future wages.
 - ▶ Entry-level workers do not have the money to pay for training today.
 - ▶ So they pay for training via grunt work.

Transferring Knowledge

- ▶ Time is continuous and infinite: $t \geq 0$.
 - ▶ Both the firm and the worker exponentially discount the future at rate r .¹
 - ▶ Expert E commits to wage path $\{w_t\}$ and knowledge transfer path $\{x_t\}$.
 - ▶ Starting knowledge is 0, maximum is 1, knowledge cannot decrease.
 - ▶ The Apprentice's output at time t is 0 if $x_t < \theta$, and $(x_t - \theta)$ otherwise.
 - ▶ While employed, the Apprentice A gets the discounted flow of wages.
 - ▶ Apprentice decides a time to quit $\tau \geq 0$, they work for themselves and receive the discounted flow of their output forever after.
 - ▶ The expert gets the discounted flow of output less wages while the worker is employed, and 0 after.
1. Do not worry I will show what this means.

Transferring Knowledge: Adding Generative AI

- ▶ Where was AI?
- ▶ The parameter θ represents the level of generative AI.
- ▶ As θ rises AI can perform more of the basic knowledge tasks.
- ▶ The expert and apprentice cannot sell tasks that AI can do. Why?

The Apprentice Becomes the Expert!

Theorem 1

During a training period that lasts from $0 \leq t \leq \frac{1}{r}$, the apprentice receives 0 wages ($w_t = 0$) and knowledge is transferred:

$$x_t = \theta + (1 - \theta)e^{-1} \exp(rt).$$

From $\frac{1}{r}$, all knowledge has been transferred ($x_t = 1$) and the apprentice is paid all output $w_t = y_t = 1 - \theta$.

- ▶ The apprentice stays for 0 wages initially! Why?
- ▶ The apprentice is given an immediate burst of knowledge. Why?

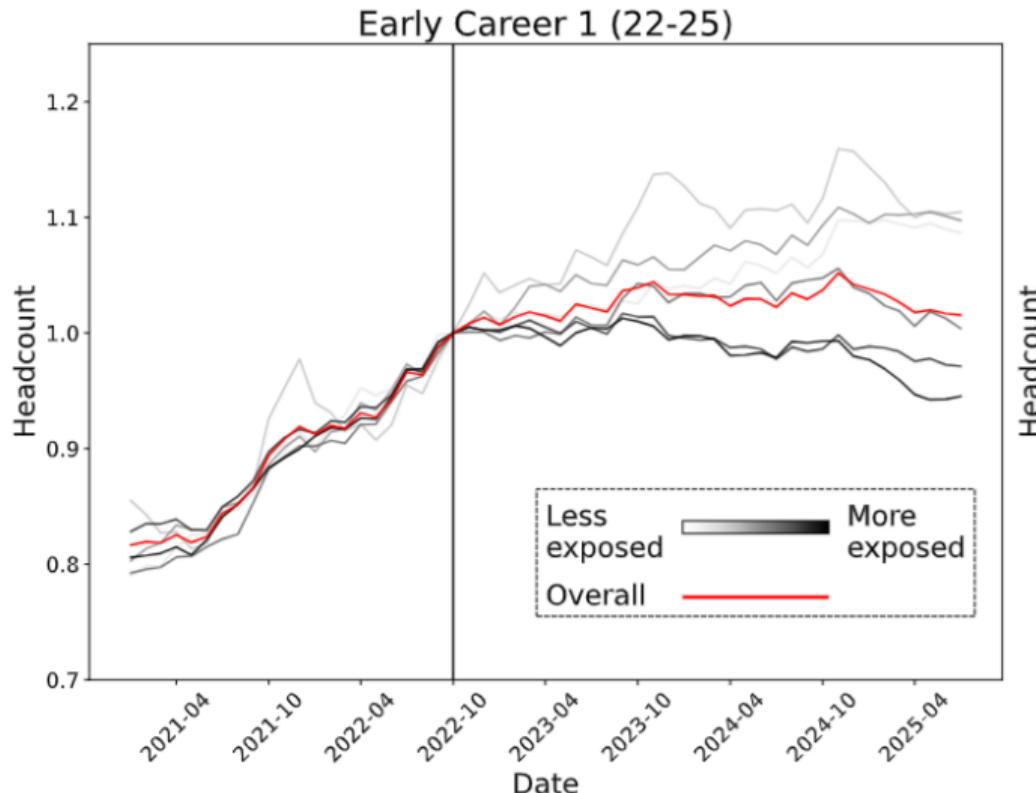
Generative AI and the Old Training Model

- ▶ Profit for the expert from training the apprentice is given by:

$$\Pi = \frac{1 - \theta}{r \cdot e}$$

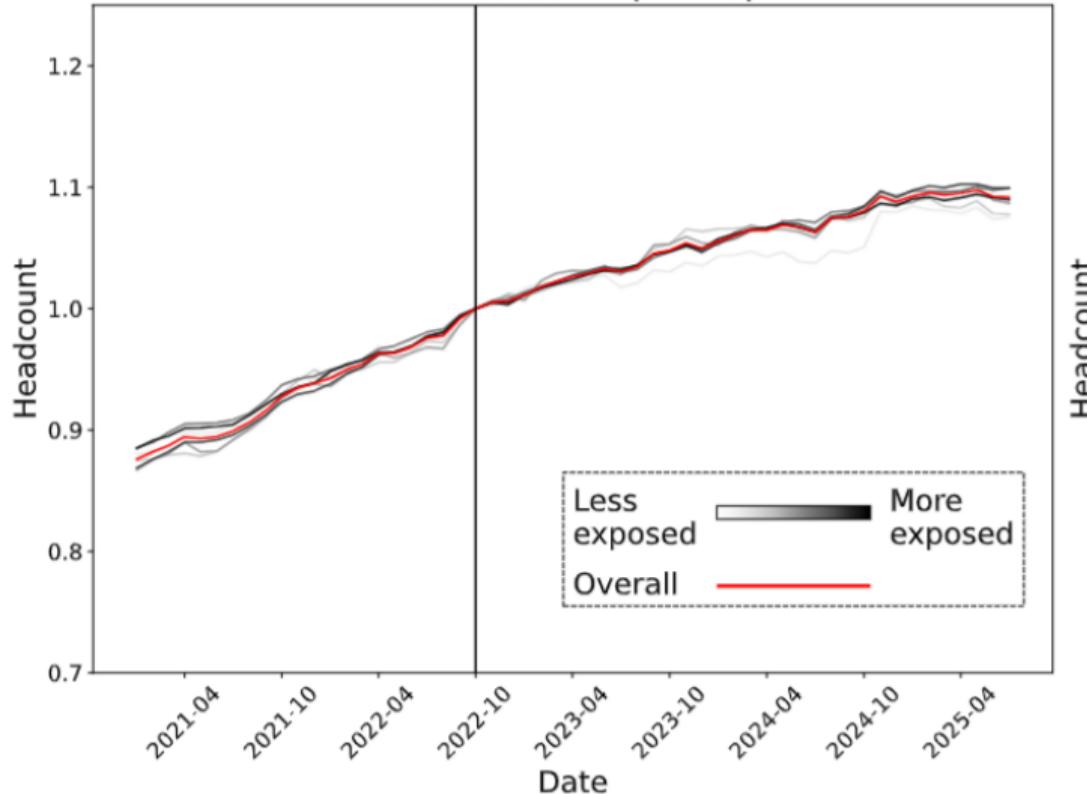
- ▶ As θ rises, profit falls, eventually converging to 1 when AI reaches the expert.
- ▶ Entry-level workers benefit through wages from general training/knowledge.
- ▶ The old “deal” was that entry-level workers did menial work for cheap in exchange for training.
- ▶ This grunt work compensates the expert for the training.
- ▶ AI destroys this paradigm.

Employment Growth and AI Exposure: Early Career



Employment Growth and AI Exposure: Mid-Late Career

Mid-Career 2 (41-49)



“Canaries in the Coal Mine?” by Brynjolfsson, Chandar, Chen (2025)