

Lecture 1: Introduction

Econ 490: Compensation in Organizations

Jacob Kohlhepp

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Why does compensation matter?

How can this class help you?

- ▶ This class will teach you a critical way to think through business problems.
- ▶ This class will teach you to digest empirical research.
- ▶ This class will help you think through your own compensation in the future.
- ▶ This class will make you think about why organizations are the way they are.
- ▶ Compensation, Benefits, and Job Analysis Specialists is a growing field (U.S. Bureau of Labor Statistics)

Why mathematical models?

Why Mathematical Models: The Monty Hall Problem

- ▶ The problem you just observed is equivalent to *Let's Make a Deal?* or a simplified version of *Deal or No Deal*.
- ▶ It was posed to Marilyn vos Savant in the magazine *Parade* in 1990.
- ▶ vos Savant answered: you should always switch.
 - ▶ 10,000 reader responses claimed this was incorrect (Krauss and Wang 2003)
 - ▶ Some respondents had PhDs in statistics.
 - ▶ In an experiment, only 16% of people chose correctly (Krauss and Wang 2003).
- ▶ Most people's intuition breaks down in the face of even moderately complex social science problems.
 - ▶ But a simple game theoretic model reveals the correct answer!

Three Facts About Me

1. I am a Christian.
2. My wife and I have two daughters.
3. I lived in California most of my life.



My Career in Economics

- ▶ 2012-2016: UCLA Undergraduate
 - ▶ BA in Economics, BA in Political Science
 - ▶ Worked in policy, government, and politics during summers
- ▶ 2016-2018: Associate at Welch Consulting (acquired by Charles River)
 - ▶ economics labor litigation consulting
 - ▶ pay equity, wage and hour violations, single plaintiff cases, etc.
- ▶ 2017: Got married!
- ▶ Early 2018: Almost Joined Activision HR
 - ▶ Compensation analyst managing bonus program for game studios

My Career in Economics

- ▶ 2018-2023: PhD in Economics
 - ▶ Earned a master's in econ partway through.
 - ▶ My first daughter was born in 2021!
 - ▶ Started and closed a very small nonprofit.
 - ▶ Worked as a freelance consultant
- ▶ 2023: Started at UNC.
 - ▶ Tenure-track assistant professor (after 6 years, up or out)
 - ▶ My research focuses on job design, recruitment, and overtime assignment within organizations and what this means for the broader economy.
 - ▶ My second daughter was born in November 2023!

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Syllabus Highlights

- ▶ Checkpoint
- ▶ Two Grading Schemes
- ▶ Participation

Problem Sets

- ▶ Because of the grading scheme you can opt out.
- ▶ However they are meant to help you study for the test.
- ▶ I suggest working alone first then working together.
- ▶ You must submit individual answers.

Game Theory/Risk Aversion Tools

We will discuss this at length in the next 1-2 lectures.

Mathematical Readiness

See the board.

Board Work

- ▶ In many lectures, I will switch to the board to solve models.
- ▶ I will post typed up versions of the “board work” on the course website.
- ▶ It is still important to work through it in class.
- ▶ The typed up versions should help you fill in gaps that you miss in lecture, but they may not be comprehensive!

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Logistics

Reading Peer Reviewed Articles

Readings

- ▶ Most lectures have one or two assigned articles.
- ▶ Most are peer-reviewed research articles. We will discuss how to read these next.
- ▶ I will ask a few questions on the midterm and final about the readings.
- ▶ I will also randomly ask a few students each lecture questions about the readings (each person will be called a few times during the semester).
- ▶ As long as your answer reflects some engagement with the reading (even just a little) you will get full credit.
- ▶ If you are absent for an unapproved reason you get 0 credit (submit absences to the logistics Google Form).
- ▶ If you wish to pass (for 0 credit) just say pass or do not answer.

What is Peer Review?

- ▶ Peer review is the independent evaluation of research by experts in a field.
 - ▶ Author submits paper to a journal often using feedback from presentations/prior rejections.
 - ▶ Editor quickly reviews paper and either desk rejects or sends it for review.
 - ▶ Editor selects 2-4 referees: experts in the area.
 - ▶ Experts read the paper and write often detailed reports about the flaws and merits of the paper.
 - ▶ Experts usually make a recommendation: reject, revise and resubmit, accept.
 - ▶ Editor, based on expert reports, makes decision. if revise, repeat all steps until reject or accept.
- ▶ If a paper passes peer review at a journal, it is published.

Journal Quality

- ▶ Not all journals have the same level of rigor or quality
- ▶ Number of citations and impact factors can help you understand what people are reading.
- ▶ But just because a journal or an article is cited often does not mean it is reliable/rigorous.
- ▶ Journal quality is subjective, but 5 journals have the best “reputations” in economics:
 - ▶ *American Economic Review, Econometrica, Quarterly Journal of Economics, Journal of Political Economy, Review of Economic Studies*
- ▶ Below these 5, there are reputable journals in each subfield. Relevant ones for our class:
 - ▶ *Journal of Labor Economics, Journal of Economic Theory, AEJ: Applied*

Reading an Academic Article

- ▶ You do not need to read each line to get main idea.
- ▶ Articles are organized so you can go to the section you want to understand.
- ▶ If we want to understand the theory, we can read that section.
- ▶ If we want empirical results, we can go there.
- ▶ The introduction and abstract give us the high-level findings and main approach.

Practice with “Performance Pay and Productivity” (Lazear AER 2000)