

LECTURE 10.7

INCENTIVE SCHEMES

INCENTIVE SCHEMES

Incentive pay schemes take many forms:

- Piece rates and commissions
- Bonuses
- Prizes
- Promotions
- Profit sharing plans etc

Incentive schemes may be useful in eliciting information and resolving some other challenges for firms.

- What types of employees are likely to take on jobs with incentive based pay schemes?

Optimal compensation design considers both hiring/retention and incentives for effort

- Is it possible, for example, to design incentive based pay schemes so that only hard working individual, or high skilled individuals apply for jobs?
- Perhaps yes, thereby at least partially overcoming the information asymmetry associated with hiring and firing.

Do incentives work? Why or why not?