

# Mikro II - HO7

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## Exercise 1

a) On an economical scale this will not be an efficient decision to make for the principal. If a great amount of individuals searching for the same job, lowering the wage would be an inefficient solution. In extreme terms there are two types of employees. The serious individual and the lesser serious individual. The principal's interest is to gain as many serious individuals as possible, while lowering the wage would lower the utility gained for the serious individuals under their outside option.

Although complying with the theory of adverse selection and the principals inadequate ability to isolate the serious individuals from the lesser serious individuals. Therefore, some lesser serious individuals will jump on the opportunity to earn a higher yield.

b) Once again dividing individuals into two groups of serious and lesser serious individuals. The lesser individuals will feel it too time-consuming to find, sort and submit the extra documents. Contradictory, the serious individuals will use this as an indicator to the employer, that they are invested in getting the job. This extra work needed will show the principal the motivation is higher, and will therefore, have an easier time differentiating between the serious and the lesser serious individuals. To conclude the statement, we see this is a good idea to ease the search of employee.

c Firstly, the university has to differentiate between serious and lesser serious applicants. Secondly we add the condition of productivity. Even serious applicants can be looking for work, but will not be productive/equipped to the situation at hand. Therefore, we could introduce contracts based on effort. This will give a higher incitement for the productive individuals to work with effort, while the lesser productive will solely receive the base. Constructing contracts to only be attractive to the productive applicants will isolate both the serious and productive applicants. This will give the principal, in this case the university, an easier task recruiting the correct and needed personnel to keep a good educational level. Though working with adverse selection and imperfect information it will be impossible to 100% degree state, that the university solely hire the productive and serious applicants.