FAKULTÄT FÜR
WIRTSCHAFTSWISSENSCHAFT

Examination: Human Resource Management – Retake Final Exam (ST 2009)

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Please note that in the Final Exam at hand, you will have **2 hours** to solve the problems worth a maximum of 70 points. Please consider the following general advice:

1. Use the theoretical tools and terminology you have learned in class and from the text-book.

2. Make sure there is a clear structure in your argument. (Use some time to sort your ideas before you start writing the version you want to submit, esp. if you answer B).

3. Use the time you have! If you are done much earlier than we planned you should, ask yourself whether you forgot something.

4. Remember: people have to be able to decipher what you write.

5. Leave a margin for our comments, so we can give you a more detailed feedback than just the number of points.

6. Each main question has sub-questions. Answer each one explicitly.

Examination Questions:

Please solve either problem(s) A or B (maximum 70 points):

You are welcome to use a dictionary and a calculator.

A) Please answer only 7 out of the following 9 questions:

1. Screening (max. 10 points)

You are the personnel manager of Best Plumbers GmbH and are looking for new plumbers. The pool of plumbers available is described by the table below. Plumbers in the pool differ in terms of productivity. Assume further that each plumber is paid a straight salary of 20,000 € a year.

a) Please explain the basic purpose of screening in recruiting and possible screening instruments.

b) Please calculate what maximum amount, if any, you would be willing to spend on screening for each applicant in this pool of plumbers.

Plumber-Type	A	B	C	D	E
Share of Plumber-Type in the Population	0.1	0.2	0.3	0.3	0.1
Average Annual Output of respective Plumber-Type in €	0	-150,000	50,000	200,000	150,000

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2. Adverse Selection (max. 10 points)

a) Explain the problem of adverse selection. What are the costs related to the adverse selec-tion problem?

b) Possible solutions to the adverse selection are screening, signaling and self-selection. Ex-plain how each of these solutions works. You are welcome to give examples for the ex-planation.

3. Recruiting: Setting Hiring Standards (max. 10 points)

T-Shirt.com is producing customized shirts. They can choose between two types of employees and two types of sewing machines for their production. The firm is now evaluating whic worker-machine combination they should use.

Two types of workers:
- Skilled workers (learning by doing) produce 6 shirts a day and are paid € 8 per hour
- Professional workers (formal qualification) produce 8 shirts a day and are paid € 10 pe hour

Two types of machines:
- Machines type-A which incur rental costs of € 6 a day
- Machines type-B which incur rental costs of € 13 a day, however double the output pe worker

a) Name and explain the decisive criterion which should be used by T-Shirt.com to select be-tween these different workers and machines.

b) According to this criterion, which candidates should be hired and which machines shoul be rented? Show your calculations and explain the hiring decision.

4. Motivation (max. 10 points)

There are two types of motivation. Describe them, and use examples to illustrate the differenc Why is it so important to distinguish these types of motivation when designing a compensation structure?

5. Tournaments (max. 10 points)

Describe the logic which is underlying the tournament model and explain how this model is ap plied to promotions in a firm. What does noise/luck mean in this context and how does it influ ence the worker's level of effort? Explain. What are possible remedies for the firm if luck/nois is an important factor? You are welcome to use your own examples.

6. Investing in Human Capital (max. 10 points)

Training is a way of investing in a worker's human capital. Against this background, please consider the following statement "German firms report that only 25 per cent of the workers above the age of 50 are trained on a regular basis."

a) Provide an analytical description of what determines a human capital investment decision.

b) Using the concept introduced in a) discuss the above statement and explain the potential role of mandatory retirement.

c) Assuming a mandatory retirement age of 67 years and an interest rate of 5% p.a., calculate whether the following investment is beneficial for the firm: Ed is 63 and is planned to take part in a two-year training program. Due to the rather firm specific human capital he accumulated over the years, he has no outside options. The training would incur costs of € 1500 for the firm. After the training, Ed's productivity is supposed to increase by € 800 per year over his remaining work life.

7. Team management (max. 10 points)

Explain in detail the cost-benefit trade-off that firms have to consider when using team work. In specific, discuss the free-rider effect and its impact on team effort. How does the team size influence the prevalence of the free-rider effect?

8. Co-determination (max. 10 points)

Co-determination plays a significant role in the German work place. Explain what co-determination is. What are the economic consequences of co-determination?

9. International HRM: Staffing Policies (max. 10 points)

Name and explain the three possible international staffing policies. Explain when and why each policy might be chosen.

B) Essay (max. 70 points)

Which model from personnel economics is the cartoon on the next page referring to? Explain the theoretical logic underlying this cartoon. What is the employee in the cartoon revealing about himself? What contract would you offer that employee?

Good Luck!