

Comments on one of the essays for ECON3810

Chosen candidate: 172741      Final grade: A

The candidate demonstrates good knowledge of the subject matter and extensive reading of the literature covered in the course. Moreover, the points achieved for the different subquestions are as follows: 10 out of 20 for question 1, 20 out of 20 for question 2 and 53.25 out of 60 for question 3. The points for the last question are calculated as the points for each subquestion out of 10, weighted with 0.75, where the points for each subquestion were 10,8,9,9,10,7,9 and 9 respectively. For question 2 and 3, the candidate's answers were well thought-through, well-crafted and enriched with background knowledge that went beyond the expectations of the course. Moreover, the candidate answered concisely and demonstrated an ability to apply knowledge from the course to slightly different questions. However, the answer to question 1 lacks detail and does not show the same degree of understanding. With a total point score of 83.25, this essay still merits an A and the performance in question 2 and 3 counteracts the weaknesses in question 1.

In the first question, candidates were supposed to "explain the main assumptions and results in the classical Principal-Agent model". The candidate states correctly, that the agent in a principal-agent model desired to maximize their wage and minimize effort while the principal would like to maximize production and minimize the wage. An important feature is here that the link between effort and production is not perfect and the principal cannot observe effort. The candidate only briefly points to that situation and does not draw the conclusions for wage setting in a principal-agent model that were discussed in the course. The candidate suggests to pay the agent by performance without stating that this may be problematic if the agent is risk-averse. As more effort does not necessarily lead to more output, the agent may exert high effort but still receive a low wage in some periods. For risk-averse agents, pure performance pay may thus lead to suboptimal outcomes for both the principal and the agent, in particular when the random element in the link between effort and performance is high. The candidate does not elaborate on this problem. Additionally, the candidate does not discuss the functional form of the utility functions of the principal and the agent, and in particular does not discuss convex effort costs its implications for equilibrium wage and effort levels.

The candidate presents a thorough and convincing solution for question 2. In particular in part 2b, the candidate discusses all explanations Gneezy and Rustichini (2000) offer in their paper and weighs their relative merit carefully. Assessing the explanation that when many parents pick their children up late from kindergarten a new equilibrium is reached, the candidate observes correctly that this may explain why kindergartens in the treatment group stay in a late pick-up equilibrium but fails to explain why there may be a shift. The description of the experimental design in part 2a is well crafted, but the candidate could have elaborated more about the situation in the control group.

In the third questions, candidates had to discuss several papers dealing with the effect of workers autonomy on productivity, with a focus on Bernstein (2012). The candidate demonstrates a good knowledge of the four papers that had to be discussed and could compare the methods and outcomes of the study. In particular, the candidate showed the ability to assess the studies with regard to generalizability and the soundness of the research design. Additionally, the candidate draws on additional studies on the supplemental reading list to enhance the arguments. There is one slight inaccuracy in question 3f. The question asked to discuss potential threats to the randomization in the design of Gjedrem and Rege (2017). The candidate did not mention the problem that all treated stores were owned by the main company and that the control group stores were franchises, nor did he/she discuss ways to deal with seasonal variation. However, as all other questions in this part have been answered very well, this does not affect the overall evaluation.