Exam

Name________________________________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which of the following statements about external competitiveness is true? 1) _______

A) External competitiveness refers to the total compensation paid by an employer to an employee.
B) External competitiveness refers to an organization's pay relative to other organizations.
C) External competitiveness refers to the budget allocation for a department relative to other departments in an organization.
D) External competitiveness refers to the competitiveness between employees of an organization.
E) External competitiveness refers to pay relationships among employees of an organization.

2) External competitiveness is expressed in practice by: 2) _______

A) comparing the performance of departments within an organization
B) encouraging the competitiveness of employees within an organization
C) setting a pay level that is above, below, or equal to competitors'
D) increasing the compensation differences between employees in an organization
E) equalizing pay for all employees within the organization, irrespective of seniority

3) The mix of the various types of payments that make up total compensation is known as: 3) _______

A) wage grade
B) pay forms
C) pay back
D) average wage
E) pay level

4) The average of the array of rates paid by an employer— i.e., the sum of base, bonuses, benefits, and options—is referred to as: 4) _______

A) variance
B) pay matrix
C) executive pay
D) pay level
E) pay forms

5) Which of the following is an assumption of economic theories of labour markets? 5) ________

A) There is a huge advantage for a single employer to pay above the market rate.
B) People are homogenous and therefore interchangeable.
C) There is a huge advantage for a single employer to pay below the market rate.
D) Employers are not always interested in maximizing profits.
E) Pay rates reflect only the base wage associated with employment.

6) The marginal revenue of labour refers to: 6) ________

A) the low-wage, no-mix strategy employed by organizations
B) he technology employed by organizations
C) the level of demand for a product
D) the difference in technology across industries and new technology within the same industry
E) the additional output from the employment of one additional person

7) The additional income generated when a firm employs one additional unit of human resources, with other production factors held constant is known as the marginal ________. 7) ________

A) input
B) net income
C) labour expenditure
D) revenue of labour
E) cost of labour

8) The additional output associated with the employment of one additional human resources unit, with other production factors held constant, is known as the: 8) ________

A) marginal review of labour
B) net profit margin
C) marginal product of labour
D) future price
E) marginal cost of labour

9) Compensating differentials theory states that: 9) ________

A) higher wages must be offered to employees when chances of success are high
B) job seekers have a reservation wage level below which they will not accept a job offer
C) pay levels and pay mix are designed to signal desired employee behaviours
D) higher wages must be offered to employees to compensate for any negative features of jobs
E) high wages will increase efficiency and lower labour costs if they lower turnover

10) Efficiency wage theory says that sometimes high wages may: 10) ______

A) lower labour costs if they attract low-quality applicants
B) increase efficiency if they reduce worker effort
C) increase efficiency if they reduce "shirking"
D) lower labour costs if they increase the need to supervise employees
E) increase efficiency if they increase turnover

11) Pay policies indicate the kinds of behaviour an employer seeks. This is a prediction of _________ labour demand theory. 11) ______

A) efficiency wage
B) compensating differentials
C) signalling
D) human capital
E) reservation wage

12) Which labour demand theory says that pay levels and pay mix are designed to indicate desired employee behaviours? 12) ______

A) compensating differentials theory
B) reservation wage theory
C) human capital theory
D) signalling theory
E) efficiency wage theory

13) The wage level below which an employee declines a job offer is known as a: 13) ______

A) reservation wage level
B) market wage level
C) living wage level
D) competitive wage level
E) prevailing wage level

14) Which of the following supply-side theories is based on the premise that higher earnings flow to those who improve their potential productivity by investing in themselves? 14) ______

A) human capital theory
B) compensating differentials theory
C) reservation wage theory
D) signalling theory
E) efficiency wage theory

15) Human capital theory assumes that people are paid at the value of their: 15) ______

A) minimum capacity for work
B) reservation wage
C) marginal product
D) current life situation
E) gross profit margin

16) Which of the following is true about human capital theory? 16) ______

A) It assumes that improving productivity by investing in training will increase one's marginal product.
B) It assumes employers deliberately design pay levels to signal desired employee behaviours.
C) It assumes that high wages lower labour costs if they reduce the need to supervise employees.
D) It assumes that job seekers have a reservation wage level below which they will not accept a job offer.
E) It assumes that people are paid at the value of their reservation wage, not marginal product.

17) Which of the following is a prediction of human capital theory? 17) ______

A) Pay policies signal the kinds of behaviour an employer seeks from employees.
B) The value of an individual's skills and abilities is a function of the time and expense required to acquire them.
C) Job seekers will not accept jobs when pay is below a certain wage.
D) Higher wages improve efficiency by attracting workers who will perform better.
E) Jobs with negative characteristics require higher pay to attract workers.

18) What are two key product market factors that affect the ability of the organization to change what it charges for its products and services? 18) ______

A) reservation wage and human capital
B) efficiency wage and reservation wage
C) product demand and the degree of competition
D) marginal product of labour and marginal revenue of labour
E) industry and product technology

19) Although labour market conditions and legal requirements put a floor on the pay level required to attract sufficient employees, the _________ puts a lid on the maximum pay level that an employer can set. 19) ______

A) labour supply
B) job market
C) labour demand
D) product market
E) employee turnover

20) The data from product market competitors are likely to receive greater weight when: 20) ______

A) employee skills are not specific to the product market
B) the supply of labour is not responsive to changes in pay
C) the level of skill needed to perform the job is high
D) product demand is not related to price changes
E) labour costs are a small share of total costs

21) A flexible policy that mimics the pay mix competitors are paying is known as a: 21) ______
A) work/life balance policy
B) security policy
C) market match pay with competition (match) policy
D) market mix policy
E) performance driven policy

22) Which of the following is a result of following the pay with competition (match) theory? 22) ______
A) a decrease in the pool of qualified applicants
B) an increase in the probability of union-free status
C) an increase in voluntary turnover
D) an increase in pay-related work stoppages
E) an increase in operating expenses

23) A(n) ________ policy maximizes the ability to attract and retain quality employees and minimizes employee dissatisfaction with pay. 23) ______
A) gap
B) lead
C) high-turnover
D) lag
E) employment equity

24) Which of the following is true about a lead policy? 24) ______
A) It pays below market rates and may hinder a firm's ability to attract potential employees.
B) It increases employee dissatisfaction.
C) It minimizes the ability to retain quality employees.
D) It believes that high turnover is likely to be a compensation problem rather than a managerial problem.
E) It offsets the negative job attributes that contribute to high turnover later on.

25) A policy to pay below market rates is known as a(n) ________ policy. 25) ______
A) lag
B) edge
C) payroll deduction
D) lead
E) market match

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

26) Pay level is the average of the array of rates paid by an employer. 26) ______

27) Both pay level and pay forms focus on two objectives: to control costs and to reduce the need for employees. 27) ______

28) Pay forms refer to the pay relationships among organizations. 28) ______

29) Competition in the labour market for people with various skills is a product market factor that shapes external competitiveness. 29) ______

30) Nature of demand and nature of supply are labour market factors that shape external competitiveness. 30) ______

31) The marginal product of labour is the additional output associated with the employment of one additional human resources unit, with other production factors held constant. 31) ______

32) The marginal revenue of labour is the additional output associated with the employment of one additional human resources unit. 32) ______

33) Marginal product and marginal revenue are directly measurable. 33) ______

34) Efficiency wage theory says that if a job has negative characteristics, then employers must offer higher wages to compensate for these negative features. 34) ______

35) Signalling theory assumes that an employer who combines lower base with high bonuses may be signalling that it wants employees who are risk takers. 35) ______

36) Geographic barriers to mobility between jobs do not affect the supply of labour. 36) ______

37) The human capital theory assumes that people are paid at the value of their reservation wage. 37) ______

38) Employers who use no-mix strategy compete by producing goods and services with the highest total compensation possible. 38) ______

39) Given the choice to match, lead, or lag, the most common competitive pay policy is to match rates paid by competitors. 39) ______

40) A policy to pay below market rates may hinder a firm's ability to attract potential employees. 40) ______

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

41) Discuss two ways of expressing external competitiveness in practice.

42) What is marginal product of labour?

43) Define the marginal revenue of labour.

44) What is the prediction of efficiency wage theory?

45) What does compensating differentials theory say?

46) Discuss the predictions of the compensating differentials theory.

47) Discuss the predictions of reservation wage theory and human capital theory.

48) How do product market conditions determine what an organization can afford to pay?

49) Discuss competitive pay policies.

50) What is a lag policy and how does it affect an organization's ability to attract employees?

1) B
2) C
3) B
4) D
5) B
6) E
7) D
8) C
9) D
10) C
11) C
12) D
13) A
14) A
15) C
16) A
17) B
18) C
19) D
20) B
21) C
22) B
23) B
24) E
25) A
26) TRUE
27) FALSE
28) FALSE
29) FALSE
30) TRUE
31) TRUE
32) FALSE
33) FALSE
34) FALSE
35) TRUE
36) FALSE
37) FALSE
38) FALSE
39) TRUE
40) TRUE
41) External competitiveness refers to the pay relationships among organizations–the organization's pay relative to its competitors. It is expressed in practice by (1) setting a pay level that is above, below, or equal to competitors; and (2) by considering the mix of pay forms relative to those of competitors. Both pay level and pay forms focus on two objectives: (1) to control costs and (2) to attract and retain employees.
42) The marginal product of labour is the additional output associated with the employment of one additional human resources unit, with other production factors held constant.

43) The marginal revenue of labour is the money generated by the sale of the marginal product–the additional output from the employment of one additional person.

44) The prediction of efficiency wage theory is that above-market wages will improve efficiency by attracting workers who will perform better and be less willing to leave. So, staffing programs must have the capability of selecting the best employees; work must be structured to take advantage of employees' greater efforts.

45) Compensating differentials theory says that if a job has negative characteristics, then employers must offer higher wages to compensate for these negative features.

46) Compensating differentials theory says that if a job has negative characteristics, that is, if the necessary training is very expensive, job security is tenuous, working conditions are disagreeable, or chances of success are low, then employers must offer higher wages to compensate for these negative features. It predicts that work with negative characteristics requires higher pay to attract workers.

47) Reservation wage theory says that job seekers have a reservation wage level below which they will not accept a job offer, no matter how attractive the other job attributes. This theory predicts that job seekers will not accept jobs when pay is below a certain wage, no matter how attractive other job aspects are.
Human capital theory is based on the premise that higher earnings flow to those who improve their potential productivity by investing in themselves. The prediction of this theory is that the value of an individual's skills and abilities is a function of the time and expense required to acquire them.

48) Product market conditions determine to a large extent what an organization can afford to pay. Product demand and the degree of competition are the two key product market factors. Both affect the ability of the organization to change what it charges for its products and services. If prices cannot be changed without decreasing sales, then the ability of the employer to set a higher pay level is constrained.

49) Given the choice to match, lead, or lag, the most common policy is to match rates paid by competitors. Managers historically justify this policy by saying that failure to match competitors' rates would cause dissatisfaction among present employees and limit the organization's ability to recruit. Many non-unionized companies tend to match or even lead competition to head off unions. A pay-with-competition policy tries to ensure that an organization's wage costs are approximately equal to those of its product competitors and that its ability to attract applicants will be approximately equal to its labour market competitors. Although this policy avoids placing an employer at a disadvantage in pricing products, it may not provide an employer with a competitive advantage in its labour markets. Classical eco models predict that employers will meet competitive wages.
A lead policy maximizes the ability to attract and retain quality employees and minimizes employee dissati with pay. A lead policy can have negative effects, too. It may force the employer to increase the wages of current employees to avoid internal misalignment and murmuring against the employer. Additionally, a lead policy may mask negative job attributes that contribute to high turnover later on (e.g., lack of challenging assignments or hostile colleagues). Remember the managers' view that high turnover was likel to be a managerial problem rather than a compensation problem.
A policy to pay below market rates may hinder a firm's ability to attract potential employees. However, if p lagged in return for the promise of higher future returns (e.g., stock ownership in a high-tech startup firm), promise may increase employee commitment and foster teamwork, which may increase productivity. Additionally, it is possible to lag competition on pay level but to lead on other returns from work.

50) A lag policy is a policy to pay below market rates. It may hinder a firm's ability to attract potential employees. However, if pay level is lagged in return for the promise of higher future returns, such a promise may increase employee commitment and foster teamwork, which may increase productivity. Additionally, it is possible to lag competition on pay level but to lead on other returns from work.