Training Employees

- There are two types of training
  - General training
  - Specific Training
- Who pays for what?

An Example

- Helen Jones will work *Now* and *Later*.

- Her VMP now is $30,000.
- General training now increases her VMP next period to $40,000. Her wage rate next period will be $40,000.

- If the training costs $5,000, her firm will offer the choice
  - Pay for the general training herself
  - Accept a wage rate this period of $25,000
Part Time MBA Programs

- Employers often pay for some general training like a part time MBA program, (They will not pay for programs unlikely to have payoff for the worker’s VMP.)
  - Formal contracts.
  - Providing to workers unlikely to leave.
  - Requiring cost participation.
  - Price discrimination.

Specific Training

- The training will increase Helen’s value to her firm only.
  - In theory, the firm should offer to pay for all of it and not give her any extra pay, but she has no incentive then to get the training.

Specific Training

- The training will increase Helen’s value to her firm only.
- The usual deal is that Helen Jones pays for part of the training and her firm pays for the rest.
  - If she invests, say $100, perhaps with her own time, she will expect compensation in the future with a discounted present value exceeding $100.
Turnover and Training

• Employee turnover is a factor.
• The firm must make a calculation of the likelihood of the worker remaining with the firm.

• Japanese firms with low turnover relative to their American counterparts invest more in their workers than do American Firms.
• Large American Firms with lower turnover than small firms invest more than small businesses.

End