Employment Rent & Disutility of Work

Employment rent ~ how much the employee values working (compared to not working in that job).

Disutility of work ~ penalty/suffering caused by working.

The following situations expand upon the scenario described in an online economics textbook:
The Economy
Produced by the CORE team of authors, coordinated by Samuel Bowles, Wendy Carlin, and Margaret Stevens.
§6 — The firm: Owners, managers, and employees
Primary writers of Unit 6: Samuel Bowles, Wendy Carlin, and Margaret Stevens.
§6.5 — Determinants of the employment rent
https://core-econ.org/the-economy/book/text/06.html#65-determinants-of-the-employment-rent

1. Situation A

To construct a model of how employment rents may be used to motivate employees to work hard, we consider Maria, an employee **earning $12 an hour** for a 35-hour working week.

Maria's **disutility of work** depends on how much effort she puts into her job. Suppose she spends **50 %** of her working time actually working (she gets paid for this time when she is *really* working), and **50 %** doing other things like checking Facebook (she also gets paid for this time when she is not *really* working). Working this hard is equivalent to a **cost** of **$2 per hour** to Maria.

This $2 per hour is NOT a real payment: it is an equivalent amount matching Maria's **unhappiness**. She is **unhappy** because she *wants* to check Facebook *all* of the time (100% of the time). But when she is at her workplace she spends 50% of her time really doing work, and in those times she can't check Facebook. Maria's unhappiness is EQUIVALENT TO how she would feel if (*hypothetically!*) she lost $2 every hour.

Let us suppose that while Maria remains unemployed, she will receive a benefit equivalent to being paid **$6 an hour** for a 35-hour week. This is her **reservation wage** — it is always available to her.

Employment rent per hour
= wage − reservation wage − disutility of effort
= $12 − $6 **− $2**
= $4

Let's call the employment rent here a 'medium' value: Maria will care a medium amount about keeping her job (*equivalent to* $4 per hour).

2. Situation B

To construct a model of how employment rents may be used to motivate employees to work hard, we consider Maria, an employee **earning $12 an hour** for a 35-hour working week.

Maria's **disutility of work** depends on how much effort she puts into her job. Suppose she spends **100 %** of her working time actually working, and **0 %** doing other things like checking Facebook. Working this hard is equivalent to a **cost** of **$4 per hour** to Maria.

Now Maria is always *really* working when she is in the workplace: so now she can *never* check Facebook when she is in the workplace. She is **unhappier** than before! Maria's unhappiness is EQUIVALENT TO how she would feel if (*hypothetically!*) she lost $4 every hour.

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Let us suppose that while Maria remains unemployed, she will receive a benefit equivalent to being paid **$6 an hour** for a 35-hour week. This is her **reservation wage** — it is always available to her.

Employment rent per hour = wage – reservation wage – disutility of effort = $12 – $6 **– $4** = $2

Maria will care only a little bit about keeping her job (*equivalent to* $2 per hour).

Maria wouldn't really mind very much if she lost this job: the benefit she gets from the job compared to not working ($12 – $6) is almost the same as the unhappiness she feels from never checking Facebook in the workplace (*equivalent to* $4 per hour).

3. Situation C

To construct a model of how employment rents may be used to motivate employees to work hard, we consider Maria, an employee **earning $12 an hour** for a 35-hour working week.

Maria's **disutility of work** depends on how much effort she puts into her job. Suppose she spends **25 %** of her working time actually working, and **75 %** doing other things like checking Facebook. (The boss still pays her $12 per hour!) Working this hard is equivalent to a **cost** of **$1 per hour** to Maria.

Now Maria is rarely *really* working when she is in the workplace: so now she can check Facebook *most of the time* when she is in the workplace. She is **happier** than before! Maria's unhappiness is EQUIVALENT TO how she would feel if (*hypothetically!*) she lost $1 every hour.

Let us suppose that while Maria remains unemployed, she will receive a benefit equivalent to being paid **$6 an hour** for a 35-hour week. This is her **reservation wage** — it is always available to her.

Employment rent per hour = wage – reservation wage – disutility of effort = $12 – $6 **– $1** = $5

Maria will care quite a lot about keeping her job (*equivalent to* $5 per hour).

Maria would mind quite a lot if she lost this job: the benefit she gets from the job compared to not working ($12 – $6) is much bigger than the unhappiness she feels from occasionally not being able to check Facebook in the workplace (*equivalent to* $1 per hour).

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