

Personnel economics

Finance



Personnel Economics The investor group is averse to risks and seeks profit maximization Assuming that the investor group is extremely averse to risks and seeks to maximize its annual profits if the head chef turns out to be of low quality, then there is the need to rank the two restaurant types and the two chef credentials associated with low quality chef in order to determine the most profitable. For the two restaurant types, the “ Casual dining” restaurant would be ranked higher than the “ Fine dining” restaurant. From the initial information, the “ Casual dining” restaurant offers better expected annual revenues and lower expected annual costs excluding the chefs salary than the “ Fine dining” restaurant. The “ Casual dining” restaurant is also profitable than the “ Fine dining” restaurant as shown below. Having a non-graduate chef would help the group to maximize its profits as it would record a profit of \$150, 000 after catering all annual costs and the Chef’s salary. In ranking therefore, the “ Casual dining” restaurant and the non-graduate chef will be first in the priority. The ranking and choice are based on the most profitable combination.

Restaurant Type	Chef Type	Expected annual revenues	Expected annual costs	Chef Salary	Profit/Loss
“ Casual dining” restaurant	Graduate Chef	2, 200, 000	2, 000, 000	90, 000	110, 000
	Non-Graduate Chef	2, 200, 000	20, 000, 000	50, 000	150, 000
“ Fine dining” restaurant	Graduate Chef	2, 600, 000	2, 650, 000	90, 000	-140, 000
	Non-Graduate chef	2, 600, 000	2, 650, 000	50, 000	-100, 000

The investor group is indifferent to risk and seeks profit maximization If the group expects to maximize its expected annual profits by being indifferent to risks, then the group should choose a chef of high quality whether a graduate or non-graduate for the “ Casual dining” restaurant or a chef of medium quality for the “ Fine dining” restaurant as <https://assignbuster.com/personnel-economics/>

this would lead to high annual profits. The group is indifferent to risks and does not care about the risks involved for as long as it maximizes its expected annual profits (Lazear and Cram 101 Textbook Reviews 50). The group should go for the “Casual dining” restaurant as the restaurant type and the high quality non-graduate chef as this would lead to a high expected annual profit. If the group goes for the “Fine dining” restaurant, then it should choose the high quality non-graduate chef as this would lead to a high profit maximization. The ranking and choice are based on the most profitable combination.

Restaurant Type	Chef Type	Expected annual revenues	Expected annual costs	Salary	Profit
Casual dining restaurant	Non-Graduate	2,600,000	2,000,000	50,000	550,000
	Graduate	2,600,000	2,000,000	90,000	510,000
Fine dining restaurant	Non-Graduate	3,600,000	2,650,000	50,000	900,000
	Graduate	3,600,000	2,650,000	90,000	860,000

Competition in the restaurants The entry of many restaurants of both types in the market would highly affect the sensitivity of restaurant revenue to the quality of chef. With the increase in the number of competitors in the market, it is expected that the turnover of the restaurants will decrease which would then lead to a reduction in the expected annual revenues. With the increase in the number of restaurants, then it is expected that chefs will be very competitive depending on their quality and this will lead to an increase in their salaries. When the chef’s salaries increase, the restaurant revenues will decrease respectively (Lazear and Cram 101 Textbook Reviews 100). This would also affect the ranking of the possible projects as the group will need to go for the

<https://assignbuster.com/personnel-economics/>

graduates and high quality chefs in order to remain competitive in the market. As a result, the attractiveness of hiring the culinary school graduates will be very high. Screening of candidates for head chef Chef's quality is not observable and cannot be learned through pre-employment screening. If it were possible to screen candidates before hiring them to determine their quality, then it would be recommendable to screen both the non-graduates for the "Casual dining" restaurant and the graduates for the "Fine dining" restaurant. It would be a good idea for any firm to undertake a thorough screening on both sets of chefs to determine their quality before any decision to hire them. Since the quality level differs between the culinary school graduate and the non graduate, it is important to screen the both sets to determine their quality level. The enthusiasm for screening will be affected positively by the accuracy of the screening process. If the screening process yields positive results, then the firm will be motivated to continue screening the chefs in future. The screening process may also be accurate to an extent that the firm is able to determine whether a graduate chef is either of low or high quality as being a culinary school graduate does not guarantee quality. This would motivate the firm to continue screening the chefs in order to gauge the low quality ones parading themselves as high quality. Works Cited Lazear, Edward and Cram 101 Textbook Reviews. Personnel Economics for Managers. Academic Internet P, 2006, pg 50-120