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Firm-Specific Training

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Abstract

This paper investigates the market provision of firm-specific training, and identifies the inefficiencies associated with it. Within a general stochastic learning-by-doing model, there is a potential inefficiency in the market provision of firm-specific training. In order to determine whether this inefficiency is in fact present, we analyze two special cases of the model: the accelerated productivity-enhancement model and the accelerated learning model. In both models, the inefficiency is indeed present. However, the nature of the inefficiency depends on the balance between the two key components of training, namely productivity enhancement and employee evaluation. In the accelerated productivity-enhancement model, training results in an increase in productivity enhancement but no change in employee evaluation, and training is overprovided by the market. In the accelerated learning model, training results in a proportionate increase in both productivity enhancement and employee evaluation, and training is underprovided by the market. In both cases, turnover is inefficiently low.

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