A wide-angle photograph of a city skyline viewed from across a body of water. In the foreground, there's a calm body of water with some ripples. Behind it, a row of older, multi-story brick buildings with dark roofs sits along the waterfront. In the background, a dense cluster of modern skyscrapers of various architectural styles, including glass facades and unique shapes, rises against a clear blue sky. A construction crane is visible on the right side of the skyline.

Andreas Krause

Employing investment bankers

High pay and quick promotions

- Investment banks are known for high salaries, associated with high workloads
- Promotions can come early in the career, but it is also easy to lose the job
- We will investigate why investment jobs have such characteristics

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High salaries within the financial sector

- Salaries in the financial sector are generally high, attributed to a high productivity
- Investment banks pay considerably more than most other businesses in the financial sector
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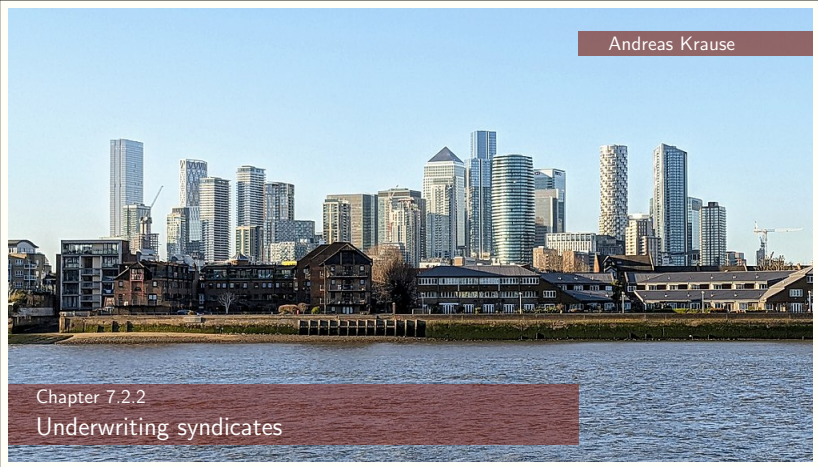
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Chapter 16.1
Optimal remuneration

Discussion of the model results

- ▶ Investment banks pay higher salaries in order to deprive competitors of able employees generating profits at their expense
- ▶ Investment banks redistribute wealth rather than create it and an employee does not only generate profits to its employer, but reduces profits for competitors
 - ▶ Senior staff in investment banks commonly have to sign non-compete clauses in their contracts, how would this affect the salary?
 - ▶ It would prevent an employee working for a competitor and reducing his former employer's profits, but high salaries would still be agreed to attract the employee in the first place

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- It investment banks give high responsibilities to employees early in their career
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Chapter 16.2
Promotion practices

Discussion of the model results

- The nature of the business makes it difficult to identify able employees and monitoring them to ensure they are providing high quality work
- Investment banks use the threat of dismissal or demotion to motivate employees exerting high levels of effort
 - What are the different motivations to exert high effort for early-career employees and those well established in the industry?
 - Early-career employees exert effort to retain their position and those established seek to retain their high pay

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Discussion of the model results

- ▶ The nature of the business makes it difficult to identify able employees and monitoring them to ensure they are providing high-quality work
- ▶ Investment banks use the threat of dismissal or demotion to **motivate employees** exerting high levels of effort
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Summary of key results

- Investment banks pay high salaries to prevent employees from working for competitors and thereby directly reducing their profits
- In order to motivate employees and identify high-achievers, investment banks give them high responsibilities and dismiss them if not successful
- The lack of success can be the result of low ability or low effort

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