

## Modeling Test #2: The Promotion Game<sup>1</sup>

Tom Finley wants to get promoted. He has been a junior administrator for too long. Its about time that someone paid attention to him, to his capabilities and to his brand new accounting certificate. Better money, more responsibility, better prospects, that's what Tom Finley wants. In fact he has been thinking that if Julia, his boss, does not promote him he will quit. And he'll make that clear to her even if it means claiming an outside offer that he does not have. He's willing to bluff to see if Julia is committed to keeping him happy. In fact, the whole thing is keeping him up at night. He wonders whether they really appreciate him at Computech. If they did, surely they would want to help him move forward, help him give the best of himself.

Friday happy hour and a few beers get Tom talking to his friend Matt. "You need to know whether they really want to keep you happy" declares Matt. "You know how it is in this day and age, they think they can get the job done better overseas, by somebody else. So who cares whether you've really got another job or not. Just go for it and you'll see whether they really care about their employees. They keep on telling you that you're their most valuable asset. Let them put their money where their mouth is."

Tom mulls this over all week-end. After all, he has sent his resume to a bunch of companies. Everybody knows that he's been looking around. And there's some chance that an offer will come his way. But if he ends up being turned down by Julia and has no other job to go to, he will really feel terrible. Maybe he could suggest to Julia that an offer is in the works. It would not be an outright lie, just a statement about his chances.

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Tom Finley has a weapon. He has been sending his resume out and he has some promising contacts. Will he get an offer? Tom is not sure about that but has some idea of the likelihood that an offer will come along. If he decides to ask Julia for a promotion, Tom can tell his boss just how likely it is that an offer will come his way, and Julia will have to make her decision with that likelihood in mind. For Julia, the hard accounting facts matter. Promoting Tom is costly, but losing him is costly too because she will need to find someone to replace him. But, she reasons, Tom will leave only if he does get an offer from someone else and she does not promote him. The ball is in Tom's court at the start of the game. He needs to decide whether to ask for promotion or not. What are the strategic and information issues faced by Tom and Julia? If you are Matt, what would you want to say to Tom?

You will construct a game model of this situation and discuss Tom's prospects for promotion as a function of his chances of getting an outside offer. You need not conduct a full formal analysis of your game but you must provide a sensitivity analysis: how do your model predictions depend on the parameters (payoffs and beliefs) of your model?