

Talent Rewards, Talent Uncertainty, and Career Tracks

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Abstract

I present a model in which (1) a more talent-demanding task increases both rewards for high talent and the penalty for low talent due to a greater fixed cost of production, and (2) individual talent is task-specific and talent updates occur only for tasks near the attempted task, which implies a task-sequence problem in which the initial task constrains subsequent task choices. Rising talent rewards and penalty stemming from a rising scale economy motivate young workers to choose a more talent-demanding task, raise the failure rate (i.e., the probability of the updated talent being lower than the exit threshold), and concentrate income gains in a diminishing fraction of high-talent workers. Rising talent rewards and penalty also increase the share of young workers subject to binding minimum current-income constraints, thus increasing the dispersion of tasks among young workers. The model sheds light on the rising stratification of careers among young workers and the rising polarization of the residual labor income distribution (i.e., the labor income distribution controlling for observable worker characteristics such as education and age).

JEL classification: D80; E20; J60; O30

Keywords: career track; talent reward; talent uncertainty; minimum-income constraint; income inequality; income polarization

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