Abstract

Beginning with Waldman (1984a), it is well understood that in a world characterized by asymmetric learning promotions can serve as a signal of worker ability which can, in turn, lead to an inefficiently small number of promotions. In this paper we explore two related issues. First, how robust is the finding of a promotion signaling distortion to different ways of modeling the promotion process? Second, what are the various forms that the promotion signaling distortion can take? Our first conclusion is that a promotion signaling distortion exists across a wide range of settings, including some for which earlier work suggests no distortion. Our second conclusion is that, even if there is no inefficiency concerning the number of promotions, there can still be a promotion distortion that takes the form of inefficiencies concerning who is promoted.