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Michael Spence's Signaling Theory: Hiring Employees as An Investment Under Conditions of Uncertainty*

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Abstract

Michael Spence, together with Joseph E. Stiglitz and George A. Akerlof, was awarded the 2001 Nobel Prize in Information Economics for his contribution to the analysis of markets characterized by information asymmetry that occurs when some market participants have better information than others do. Spence focused particularly on information concerning employee productivity. On the assumption that an employee knows more about their productivity than a potential employer does, Spence showed how efficient employees can "signal" their productivity through formal education. The lecture delivered at the Nobel Prize Award Ceremony on 8 December 2001 was entitled "Signaling in retrospect and the informational structure of markets" (Spence, 2002). Beside the presentation of the Noble Prize winner and his research field, the purpose of this paper is to indicate the areas inspired by the signaling theory.

Keywords: Signaling, Information Asymmetry, Human Resource Management.

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