Chasing the carrot – actual working hours of fixed-term employees

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Fixed-term contracts can serve as a screening device to reveal the true ability of workers. To achieve promotion to a permanent position, fixed-term employees have an incentive to prove themselves by providing higher effort than competing co-workers by means of longer working hours. Applying fixed effects estimation to the German register data, we find that employees work longer hours on fixed-term contracts. This effect is stronger for labour market entrants and employees that are newly hired. We further show that actual hours of work are particularly large when there is competition among co-workers to receive promotion.