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# IMF Working Paper

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## The Limits of Meritocracy

by John Morgan, Justin Tumlinson, and Felix Várdy

***IMF Working Papers* describe research in progress by the author(s) and are published to elicit comments and to encourage debate.** The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

I N T E R N A T I O N A L M O N E T A R Y F U N D

## IMF Working Paper

Monetary and Capital Markets Department

### The Limits of Meritocracy<sup>1</sup>

Prepared by John Morgan, Justin Tumlinson, and Felix Vardy

Authorized for distribution by Nigel Jenkinson

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### Abstract

We show that too much meritocracy, modeled as accuracy of performance ranking in contests, can be a bad thing: in contests with homogeneous agents, it reduces output and is Pareto inefficient. In contests with sufficiently heterogeneous agents, discouragement and complacency effects further reduce the benefits of meritocracy. Perfect meritocracy may be optimal only for intermediate levels of heterogeneity.

JEL Classification Numbers: D22, D47, D61, D63, L23

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