Discrimination

1 Introduction

A. Opportunity vs Result
B. Market or premarket
C. Cause of discrimination

2 Earnings Disparities

A. Discuss Figure 12.1 and Tables 12.1-12.3 (v6)
B. Estimation
1) Correct for differences in other variables
a) Education: quantity and quality
b) Age and experience
c) English proficiency
2) Rest is alleged due to discrimination
3) May actually be due to unobserved variables correlated with sex or race

3 Theories of Discrimination

A. No discrimination: where is the evidence?
B. Prejudice
1) Prejudice of employers: why aren't they competed out of business?
2) Prejudice by customers
3) Prejudice by employees
C. Statistical discrimination
1) Discuss Phelps
2) Discuss insurance rating
3) Discuss self-fulfilling priors

4 Discrimination by Consumers

Consider a firm that maximizes profits in a world without discrimination:

$$\max \pi = pf(W, B) - w_W W - w_B B.$$

Then FOC's are

$$\begin{aligned} pf_W - w_W &= 0; \\ pf_B - w_B &= 0. \end{aligned}$$

If blacks and whites are perfect substitutes and equally productive, then the problem becomes

$$\max \pi = pf\left(W+B\right) - w_W W - w_B B$$

with FOC's

$$\begin{aligned} \frac{\partial \pi}{\partial W} &= pf^{'} - w_W = 0; \\ \frac{\partial \pi}{\partial B} &= pf^{'} - w_B = 0. \end{aligned}$$

Now consider a firm where the price the firm can charge for its product depends upon the ratio of black to white workers:

$$\max \pi = p\left(\frac{B}{W}\right) f\left(W+B\right) - w_W W - w_B B$$

with $p' < 0$. Then the FOC's are

$$\begin{aligned} \frac{\partial \pi}{\partial W} &= -\frac{B}{W^2} p' f + pf' - w_W = 0; \\ \frac{\partial \pi}{\partial B} &= \frac{1}{W} p' f + pf' - w_B = 0. \end{aligned}$$

Note that

$$w_W = pf' - \frac{B}{W^2} p' f > pf' > pf' + \frac{1}{W} p' f = w_B.$$

Now consider a case where there is a "black" market and a "white" market. The firm's problem becomes

$$\max \pi = p_1\left(\frac{B_1}{W_1}\right) f\left(W_1+B_1\right) + p_2\left(\frac{W_2}{B_2}\right) f\left(W_2+B_2\right) - w_W\left(W_1+W_2\right) - w_B\left(B_1+B_2\right)$$

with FOC's

$$\begin{aligned} \frac{\partial \pi}{\partial W_1} &= -\frac{B_1}{W_1^2} p_1^{'} f\left(W_1+B_1\right) + p_1 f'\left(W_1+B_1\right) - w_W = 0; \\ \frac{\partial \pi}{\partial W_2} &= \frac{1}{B_2} p_2^{'} f\left(W_2+B_2\right) + p_2 f'\left(W_2+B_2\right) - w_W = 0; \\ \frac{\partial \pi}{\partial B_1} &= \frac{1}{W_1} p_1^{'} f\left(W_1+B_1\right) + p_1 f'\left(W_1+B_1\right) - w_B = 0; \\ \frac{\partial \pi}{\partial B_2} &= -\frac{W_2}{B_2^2} p_2^{'} f\left(W_2+B_2\right) + p_2 f'\left(W_2+B_2\right) - w_B = 0. \end{aligned}$$

We can show that at least one of the two markets is segregated; i.e., either $B_1 = 0$ or $W_2 = 0$. Consider the alternative. Consider switching one black from market 1 to market 2 and one white from market 2 to market 1. The change in profits is

$$
\begin{aligned}
& \left(\frac{\partial \pi}{\partial W_1} - \frac{\partial \pi}{\partial W_2}\right) + \left(\frac{\partial \pi}{\partial B_2} - \frac{\partial \pi}{\partial B_1}\right) \\
= & -\frac{B_1}{W_1^2} p_1^{'} f\left(W_1 + B_1\right) - \frac{1}{B_2} p_2^{'} f\left(W_2 + B_2\right) \\
& -\frac{W_2}{B_2^2} p_2^{'} f\left(W_2 + B_2\right) - \frac{1}{W_1} p_1^{'} f\left(W_1 + B_1\right) \\
> & \; 0.
\end{aligned}
$$

Explain intuition.

5 Public Policy

1) Comparable worth
2) Affirmative action and quotas