Master in Economics

Labour economics – Lecture 7

March 2026

Lisbon School
of Economics
& Management
Universidade de Lisboa

Lecture 7

Chapter 6: Human capital and inequality

Topics

- **Inequality in the labour market: Gender, Race, and Ethnicity in the Labour Market**
  - **Measured and Unmeasured Sources of Earnings Differences**
  - **Theories of Market Discrimination**

Bibliography:

- **Ehrenberg, Ronald & Robert Smith, *Modern Labor Economics: Theory and Public Policy* – Chapter 12**
- **Novo, Alvaro & Centeno, Mário *When supply meets demand: Wage inequality in Portugal*, Mimeo**

Inequality in the labour market: Gender, Race, and Ethnicity in the Labour Market

- **US: remarkable demographic changes in the LM (women, legal and illegal immigration,…)**

  - **White workers 78% of labour force in 1990, < 68% by 2010; projected < 60% in 2028**
  - **shares of women, African Americans, Asian Americans, and Hispanics steadily increased in the past two decades; the share of Hispanics doubled from 1990 to 2018**
  - **despite, Hispanics still earn substantially less, on average, than white males for full-time work**

Inequality in the labour market: Gender, Race, and Ethnicity in the Labour Market

Table 12.1 Shares of the Civilian Labor Force for Major Demographic Groups: 1990, 2000, 2010, 2018, 2028

	Year				
	1990 (%)	2000 (%)	2010 (%)	2018 (%)	2028 (%) (projected)
White (non-Hispanic)	77.7	72.0	67.5	62.1	56.9
Female (all races)	45.2	46.5	46.7	46.9	47.6
Black (all genders)	10.9	11.5	11.6	12.6	13.0
Asian (all genders)[a]	3.7	4.4	4.7	6.3	7.3
Hispanic (all races, all genders)	8.5	11.7	14.8	17.5	20.9

[a] This includes Alaskan Natives and Pacific Islanders.

Source: Mitra Toossi, "Labor Force Projections to 2024: The Labor Force Is Growing, but Slowly," *Monthly Labor Review* (December 8, 2015): Table 1, at www.bls.gov/opub/mlr/2015/article/labor-force-projections-to-2024.htm; Mitra Toossi, "Civilian Labor Force, by Age, Sex, Race, and Ethnicity," at www.bls.gov/emp/tables/civilian-labor-force-summary.htm

Inequality in the labour market: Gender, Race, and Ethnicity in the Labour Market

Portugal: Share of the labour force

	Male	Female
1960	82.3	17.7
1970	74.8	25.2
1981	64.7	35.3
1992	55.4	44.6
2003	53.8	46.2
2010	52.3	47.7
2011	52.1	47.9
2021	50.7	49.3
2024	50.5	49.5

Source: Census (1960 to 1981), Labour force survey (1992 to 2024). Break in series in 2010

Inequality in the labour market: Gender, Race, and Ethnicity in the Labour Market

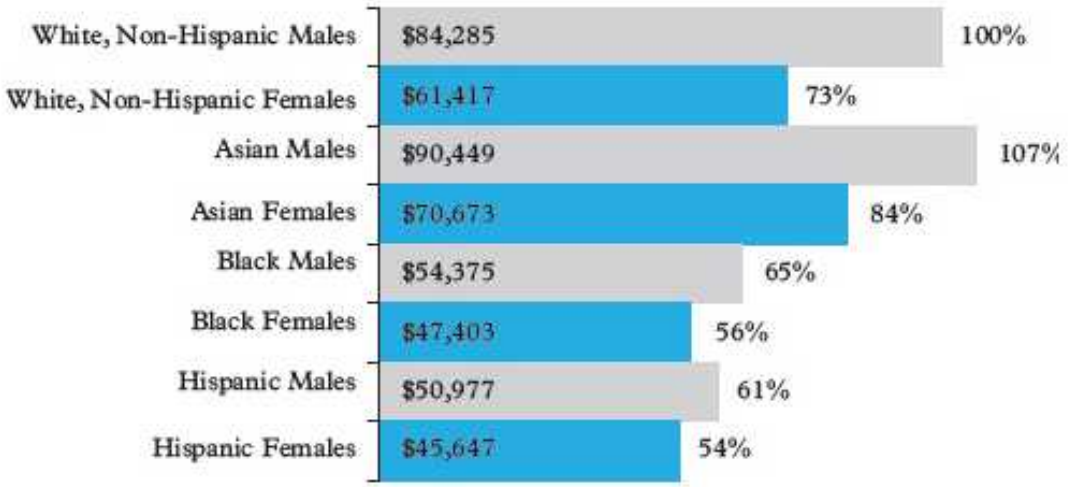


Figure 12.1 Mean Earnings as a Percentage of White Male Earnings, Various Demographic Groups, Full-Time Workers Over 24 Years Old, 2018

Source: Data in this figure are from U.S. Bureau of the Census, "Historical Income Tables: People," Table P-39, at www.census.gov/data/tables/timeseries/demo/income-poverty/historical-income-people.html

3 major demographic groups - women, blacks, and Hispanics - still earn substantially less than white males

Inequality in the labour market: Gender, Race, and Ethnicity in the Labour Market

Portugal: Mean base wage 2022
(full time workers, aged 24 to 65)

	€
Male	1,228.3
Female	1,062.0
Portuguese	1,159.4
Foreigners	1,076.2

Source: Quadros de Pessoal

Earnings Differences by Gender

Measured and Unmeasured Sources of Earnings Differences

- **US Earnings Differences by Gender**
  - All races, women over the age of 15, full-time earned an average of:
    - 76% of what males earned in the year 2018
    - 66% of what males earned in the year 1990
    - 58% of what males earned in the year 1970 or 1980
  - Potential sources of differences:
    - education, age, occupation, and hours and experience are measurable factors that influence earnings

controlling for differences on measurable factors accounts for some of the female/male differences in earnings… but not all

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - age and education explain part of difference
    - differences in educational attainment namely among older cohorts
    - women with flatter age/earnings profiles – ratios fall with age

Table 12.2 Female Earnings as a Percentage of Male Earnings, by Age and Education, Full-Time Workers, 2018

Age	High school graduate (%)	Bachelor's degree (%)	Master's degree (%)
25–34	70	82	72
35–44	71	77	73
45–54	70	67	68
55–64	74	69	61

Source: U.S. Bureau of the Census, *Current Population Survey Tables for Personal Income*, Personal Income: PINC-03, 2018, at www.census.gov/data/tables/time-series/demo/income-poverty/cps-pinc/pinc-03.html

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - part of the difference in the average pay is due to different occupational distributions

Table 12.3 Female–Male Earnings Ratios and Percentages of Female Jobholders, Full-Time Wage and Salary Workers, by Selected Highand Low-Paying Occupations, 2018

	Percentage Female in Occupation	Female-to-Male Earnings Ratio
*High-paying**		
Computer systems managers	25	0.90
Lawyers	40	0.80
Pharmacists	63	0.83
Low-paying*		
Cashiers	73	0.99
Cooks	39	0.84
Food preparation	56	0.92

*High-paying occupations are those in which women earned more than $1,500 per week in 2018; "low paying" ones are those in which men earned less than $520 per week.

Source: U.S. Bureau of Labor Statistics, *2018 Employment and Earnings Online*, Annual Average Household Survey Data, Table 39, at https://www.bls.gov/cps/aa2018/cpsaat39.htm

- women are overrepresented in low-paying occupations and underrepresented in high-paying one
- even in the same occupations, women earn less than men

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**

  hours and experience (same occupation)

  - **women have average fewer hours of market work per week than men**
    - **within occupations, earnings affected by one's hours of work and years of experience**
  - **within occupations women typically have less (and sometimes, interrupted) work experience and are less likely to be promoted**
    - **e.g. women at age of 30 that were mothers earned less 23% than men; those that were not mothers earned -10%**
    - **e.g MBA graudates: immediately after graduation, no wage difference; after 10 years women earned 45% less**

      one third explained by fewer current hours and another third explained by lower accumulated worker experience

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - explained differences
    - occupation, education, age, experience, and hours of work explain a big part of earnings differentials by gender
    - other measurable variables added to this list could explain more
  - unexplained differences
    - Do some differences remain unexplained even if all measurable factors are included in our analysis? Yes!

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - two possible interpretations:
    - remaining differences are the result of characteristics affecting productivity that might differ by gender, but cannot be observed by the researcher
      - e.g. the relative priorities individual men and women assign to market and household activities, if the two conflict
    - unexplained differential is the result of discriminatory treatment

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - Discrimination:
    - labour market discrimination exists if workers who have identical productive characteristics are treated differently
  - average wage differentials observed between demographic groups result from 2 sources:
    - pre-market differences: differences in the productive characteristics with which the groups enter the labour market
    - differences in the way the groups are treated by actors within the labour market
  - Discrimination = differential treatment within the labour market

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - prominent forms of gender discrimination:
    - wage discrimination - when the prices paid for given productive characteristics are systematically different for different demographic groups
      - Employers are suspected paying women less than men with the same experience and working under the same conditions in the same occupations
    - occupational discrimination - women with the same education and productive potential shunted into lower-paying occupations or levels of responsibility by employers who reserve the higher-paying jobs for men; data:
      - women and men have very different occupational distributions
      - *difficult to prove occupational discrimination but easier to prove occupational segregation*

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - occupational segregation
    - when the distribution of occupations within one demographic group is very different from the distribution in another
      - female-dominated occupations and male-dominated
  - if occupational choices are directly limited or are influenced by lower payoffs to given human capital characteristics – occupational segregation reflects labour market discrimination
  - if choices reflect different preferences or household responsibilities

    If occupational preferences form naturally from one's life experiences and they should be respected in a market economy

    there is a problem if preferences are the result of pre-market discrimination — differential treatment by parents, schools, and society at large that points girls toward lower-paying occupations

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - measuring occupational segregation
    - measures based on comparing the existing distribution of men and women in occupations with the distribution that would exist if assignment to occupations were random with respect to gender
    - index of dissimilarity measure
      - assuming workers of one gender remain in their jobs indicates the percentage of the other gender that would have to change occupations for the two genders to have equal occupational distributions
        - if all occupations were completely segregated value 100 / if men and women were equally distributed across occupations value 0

  500 narrowly defined occupations in the US: the index of dissimilarity has declined from 64.5 in 1970, to 58.4 in 1980, 54.1 in 1990, 52.0 in 2000 and 51 in 2009 – rhythm slowed

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - effects of occupational segregation on women's wages are substantial
    - if American women with given educational attainment and experience levels were in the same occupations and industries as their male counterparts, their wages would rise by as much as 3% to 10%
      - part due to different preferences
  - effect bigger in US than Europe – wage differentials higher in the US

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - measuring wage discrimination
    - ideal measure - four step process

1) data, for men and women, on relevant determinants of earnings
   - age, education and training, experience, tenure, hours of work, firm size, region, intensity of work effort, industry, and the job's duties, location, and working conditions

2) regression analysis: estimate how each characteristic contributes to the earnings of women

3) estimate how much women would earn if their productive characteristics were exactly the same as those of men
   - applying the payoffs women receive to the average level of those men's characteristics

4) wage discrimination: hypothetical average earnings level calculated for women minus actual average earnings of men

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - measuring wage discrimination
    - problems:
      - labour market payoffs to productive characteristics can affect pre-market choices
        - when making choices about occupational preparation, are women able to freely exercise their occupational preferences or do they avoid occupations for which they believe their entry will be made very difficult by discrimination in the labour market?
      - frequently we do not have data on all the pre-market variables that affect wages
        - the procedure may overstate the extent of labour market discrimination

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - measuring wage discrimination - results
    - 2010 data: women earned 79.3% as much as men
      - if their productive characteristics (including occupation) had been equalized, would earned 91.6%
    - 2000 data: 35 to 43-year-olds, women's earnings 78% of men's;
      - if they had the same human capital, worked for the same types of employers, and had the same occupational distribution as men: 91-98%

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Gender**
  - measuring wage discrimination - results
    - differences in labour market experience explained the largest part of the observed gender gap in earnings
    - while differences in the occupational distribution contributed roughly 3 p.p. to the original 22% gap

    - labour market discrimination could account for as much as 2 to 9 p.p. of the gap if occupational choice is assumed to reflect preferences; from 5 to 12 p.p. if occupational choices for women are assumed to be constrained

Earnings Differences by Race

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences between Black and White Americans**
  - US: black males who worked full-time in 2018 earned just 65% as much as white males; black females earned just 55% as much as white females
    - earnings gaps narrowed in the 1970s became larger in 80s, narrowed again in 90s and is relatively constant since 2000

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences between Black and White Americans**
  - no major difference in the fraction of adult male employees in the two groups who work part-time
  - a lower percentage of employed black women (13.9% in 2015) than white women (21.2%) work part-time
  - significant disparities in the employment-to-population ratios
    - a lower % of the black population is employed
  - wages of poorly educated workers— especially men—have fallen in recent years
    - many of these men have become “discouraged workers” and have dropped out of the labor force
  - higher unemployment rates of blacks are a cause of their lower employment-to-population ratios

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences between Black and White**

Table 12.4 Employment Ratios, Labor-Force Participation Rates, and Unemployment Rates, by Race and by Gender, 1970–2017[a]

Year	Employment ratio		Labor-force participation rate		Unemployment rate	
	Black (%)	White (%)	Black (%)	White (%)	Black (%)	White (%)
			Men			
1970	71.9	77.8	77.6	81.0	7.3	4.0
1980	62.5	74.0	72.1	78.8	13.3	6.1
1990	61.8	73.2	70.1	76.9	11.8	4.8
2000	63.4	72.9	69.0	75.4	8.1	3.4
2017	59.4	66.9	64.6	69.5	8.1	3.8
			Women			
1970	44.9	40.3	49.5	42.6	9.3	5.4
1980	46.6	48.1	53.6	51.4	13.1	6.5
1990	51.5	54.8	57.8	57.5	10.8	4.6
2000	58.7	57.7	63.2	59.8	7.2	3.6
2017a	56.1	54.2	60.3	56.4	6.9	3.8

[a] For 1970 and 1980, data on Black people include other racial minorities. Data in all years are for people ages 16 or older.

Sources: U.S. Bureau of Labor Statistics, *Employment and Earnings* 17 (January 1971), Table A-1; 28 (January 1981), Table A-3; 38 (January 1991), Table 3; 48 (January 2001); *Employment and Earnings Online*, Annual Average Household Data, Employment Status, Table 3, at www.bls.gov/opub/ee/2018/cps/annavg3_2017.pdf

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences between Black and White Americans**
  - relative constancy of the black/white ratio of unemployment rates suggests that the ratio is not affected much by the business cycle
    - the constant ratio means that black workers suffer disproportionately in a recession
    - the greater sensitivity of black employment to aggregate economic activity has led many observers to conclude that blacks are the last hired and first fired

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences between Black and White Americans**
  - occupational segregation and wage discrimination
    - occupational segregation - appears to be less prevalent by race than by gender
      - indices comparing black and white occupational distributions had values roughly half the size of indices comparing male/female occupational distributions
    - wage discrimination - analyses that use conventional data on education, experience, age, hours of work, region, occupation, industry, and firm size conclude that these easily measured factors account for much of the observed earnings gap between black and white men
      - if black men had the same conventionally measured productive characteristics (including occupation) as white men, they would receive earnings 89% of whites

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences between Black and White Americans**
  - occupational segregation and wage discrimination
    - wage discrimination - issue: whether the remaining 11 percent differential reflects current wage discrimination or unmeasured productive characteristics
      - there is evidence of important pre-market differences between blacks and whites, on average - most studies do not find that these differences explain the entire wage gap
      - there is ample direct evidence (from hiring audits and government complaints) that labour market discrimination exists
      - as long as black unemployment rates are twice those of whites, blacks will continue to fall short of whites, on average, in terms of job experience and the tenure-related benefits of on-the-job training

Earnings Differences by Ethnicity

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Ethnicity**
  - (US) relatively high earnings of men whose ancestry is Russian, Italian, or Japanese
  - (US) conversely, men whose ancestry is Native American, Mexican, or Puerto Rican have especially low earnings

Measured and Unmeasured Sources of Earnings Differences

- **Earnings Differences by Ethnicity**

Table 12.5 Male Earnings Differences, by Ancestry, 1990

Ancestral group	Earnings as a percentage of U.S. average	Estimated earnings as a percentage of U.S. average if productive characteristics of group were average
U.S. total	100	100
Mexican	71	95
Puerto Rican	87	98
Cuban	90	102
Chinese	99	95
Japanese	133	115
Native American	85	95
English	113	102
Italian	121	109
Russian	157	118

Source: William Darity Jr., David Guilkey, and William Winfrey, "Ethnicity, Race and Earnings," *Economics Letters* 47 (1995): 401–408

Theories of Market Discrimination

Theories of Market Discrimination

3 sources of labour market discrimination:

- personal prejudice
  - employers, fellow employees, or customers dislike associating with workers of a given race, sex or ethnicity
- statistical prejudgment
  - employers project onto individuals certain perceived group characteristics
- noncompetitive forces in the labour market

Theories of Market Discrimination

- **Personal-Prejudice Models: Employer Discrimination**
  - employers' preferences: avoid members of certain demographic groups
    - employers prejudiced against women and minorities
      (let's assume for simplicity that customers and fellow employees are not)
    - assume that women and minorities have the same productive characteristics as white males
      - puts aside pre-market differences – the valuation of their productivity is devalued by prejudice
    - market equilibrium for white males:
      - wage (W_M) equals the marginal revenue productivity (*MRP*):

        $$MRP = W_M$$

    - for women and minorities equilibrium:
      - their wage (W_F) equals their subjective value to firms:

        $$W_F = MRP - d$$

        $$\text{or } MRP = W_F + d$$

Theories of Market Discrimination

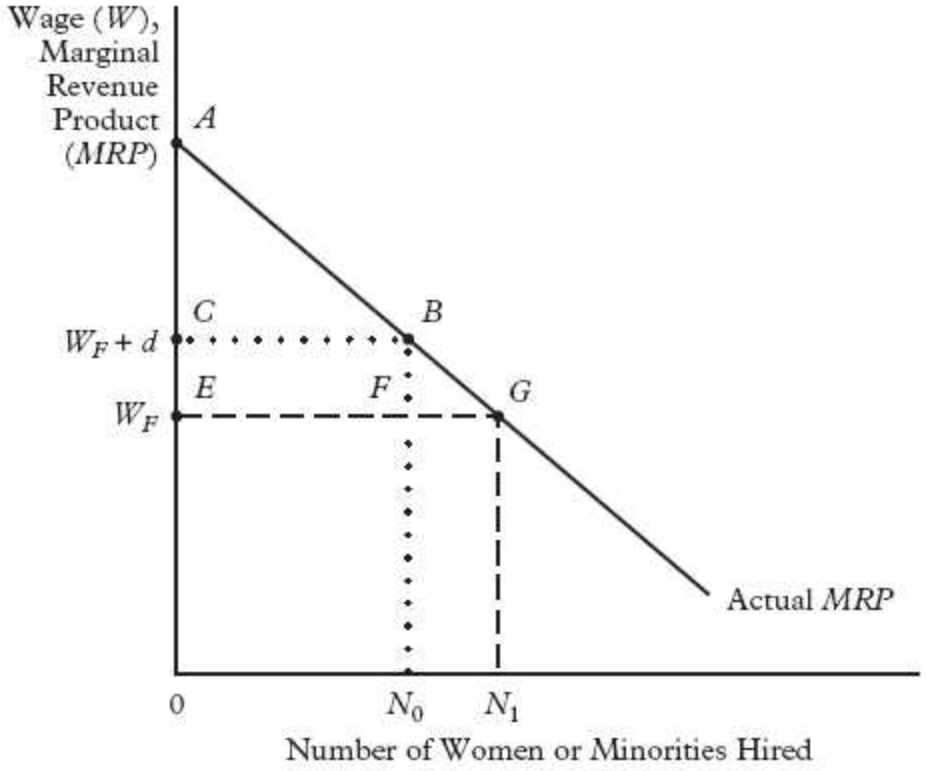
- **Personal-Prejudice Models: Employer Discrimination**
  - as the actual marginal revenue productivities are equal by assumption, then

$$W_F = W_M - d$$

if the actual productivity is devalued by employers, workers in such groups must offer their services at lower wages than white males to compete for jobs

Theories of Market Discrimination

- **Personal-Prejudice Models: Employer Discrimination**
  - **profits - Discriminators give up profits in order to indulge their prejudices**



For discriminatory employer:

faced with wage of W_F will hire less minority/women workers at N_0, where

$MRP = W_F + d$

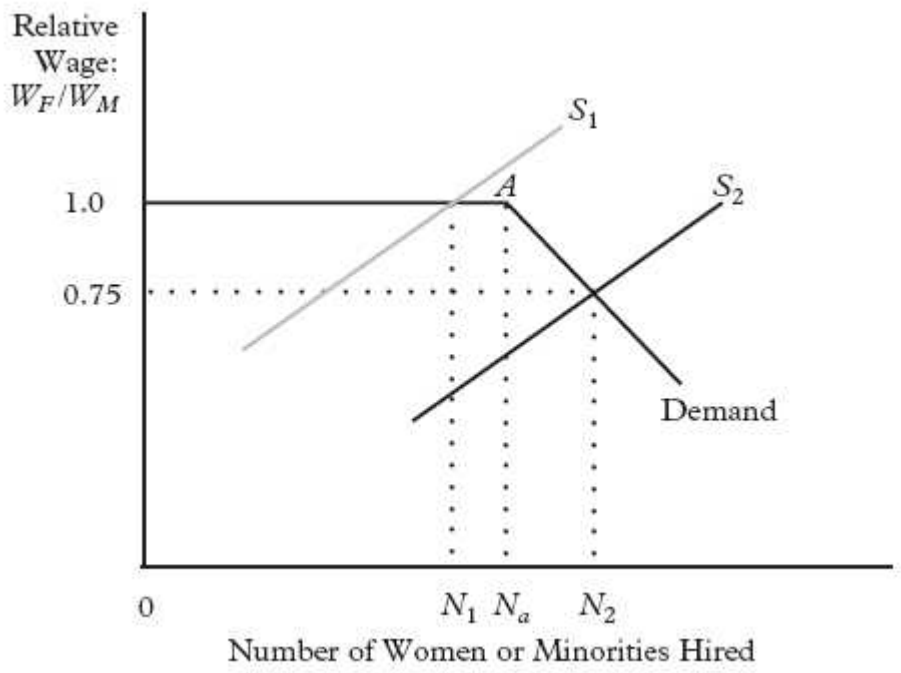
Wage bill: $0EFN_0$
Profit: $AEFB$

For nondiscriminatory profit-maximizing employers:

Wage bill: $0W_FGN_1$
Profit: AEG

Theories of Market Discrimination

- **Personal-Prejudice Models: Employer Discrimination**
  - pay gaps under Employer Discrimination



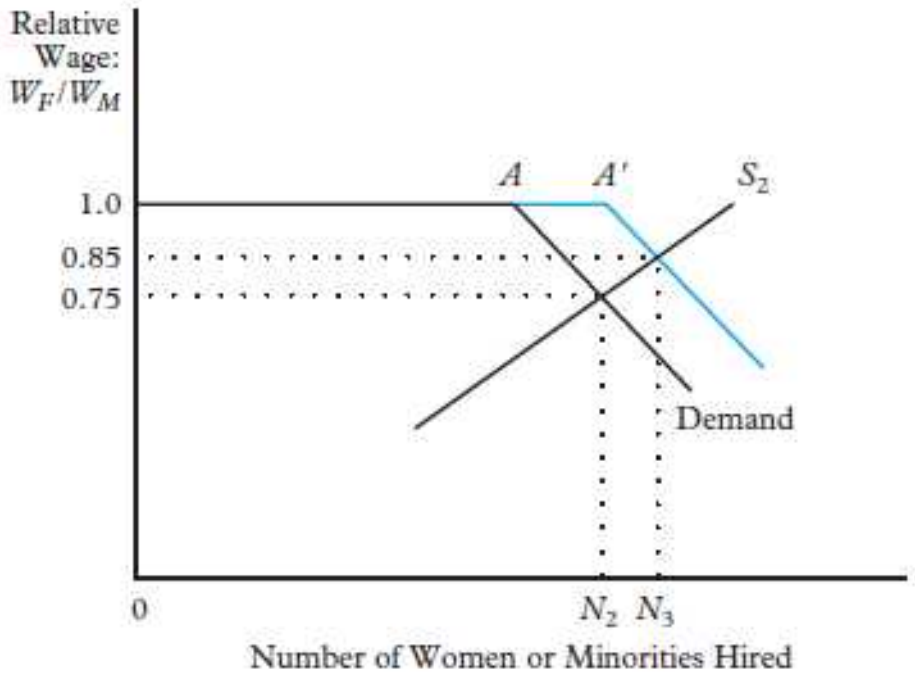
Different supply of women/minorities

Supply curve S_1:
- number of minorities relatively small;
- all hired by nondiscriminatory employers
- no wage differential: $W_F = W_M$

Supply curve S_2:
- number of minorities seeking jobs relatively large
- discriminatory employers will have to be induced to hire minorities, driving $W_F < W_M$ (0.75)

Theories of Market Discrimination

- **Personal-Prejudice Models: Employer Discrimination**
  - **pay gaps under Employer Discrimination**



Different number of non-discriminatory employers

# of non-discriminators

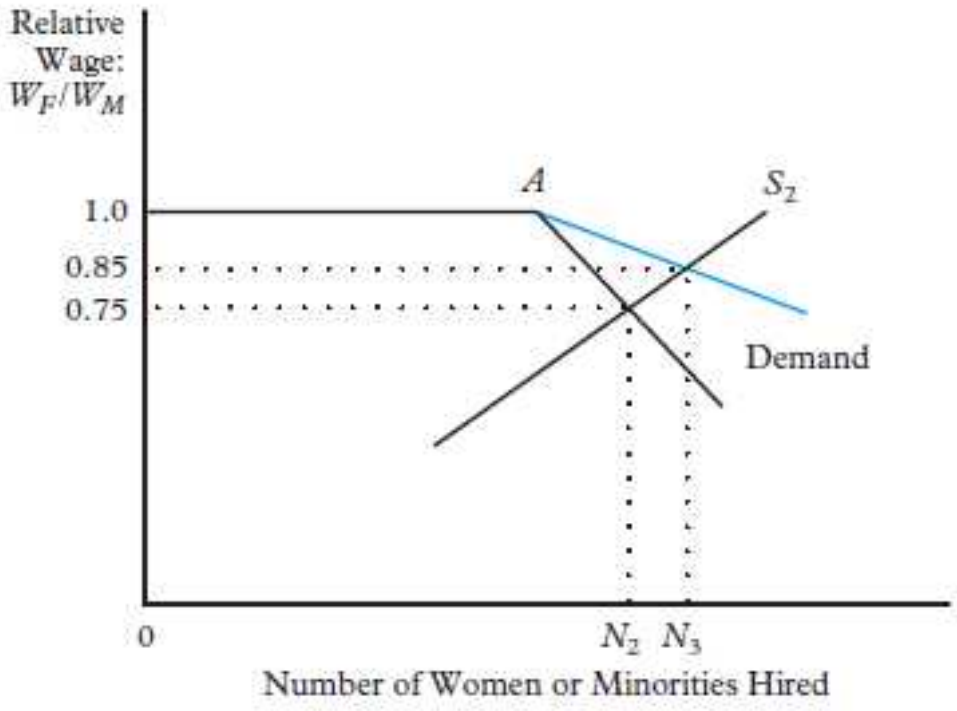
Affects market differential between W_F and W_M

An increase #n-d would decrease the wage differential:

- horizontal section of demand curve extends from *A* to *A′*
- wage rises from 0.75 to 0.85
- N_3 minorities will be hired

Theories of Market Discrimination

- **Personal-Prejudice Models: Employer Discrimination**
  - **pay gaps under Employer Discrimination**



Different discriminatory preferences of employers

change in discriminatory preferences

- number of prejudiced employers the same

-but reduced discriminatory preferences

Reduces discriminatory wage gap

Theories of Market Discrimination

- **Personal-Prejudice Models: Employer Discrimination**
  - 2 major implications

    - profits - discriminators give up profits for prejudices
      - discriminatory employers hire less workers of the type prejudiced against

    - pay gaps under employer discrimination:
      - the more minority workers exist, the larger the wage gap
      - given the supply curve, if the number of non-discriminators increases, the wage differential decreases
      - given the supply curve, if the degree of prejudice decreases, the wage differential decreases

Theories of Market Discrimination

- **Personal-Prejudice Models: Employer Discrimination**
  - empirical implications
    - holding human capital constant, discriminatory pay gaps will be greater when the minority population in a region is greater
    - pay gaps will be larger, other things equal, when the prejudice of the employers is greater
    - pay gaps will be unaffected by the level of prejudice of the most prejudiced employers

Theories of Market Discrimination

- **Personal-Prejudice Models: Employer Discrimination**
  - which employers can afford to discriminate?
    - discriminators maximize utility (prejudicial preferences) instead of profits
    - if competitive forces were at work in the product market, firms that discriminate would be punished and discrimination could not persist unless their owners were willing to accept below-market rates of return
    - employer discrimination is most likely to persist when owners or managers do not have to maximize profits in order to stay in business - the opportunity to indulge in discriminatory preferences is especially strong among monopolies that face government regulation, because the costs of this practice make profits look smaller to regulatory bodies

Theories of Market Discrimination

- **Personal-Prejudice Models: Customer Discrimination**
  - Some customers may prefer to be served by white males and others by minorities or women
  - if preferences for certain types of workers extend to high quality jobs, then occupational segregation that works to the disadvantage of women and minorities will occur:
    - the marginal revenue productivity of the minority employees is reduced to their employers by customers' prejudices
    - women or minorities to find employment in these jobs must either accept lower wages or be more qualified than the average white male

Theories of Market Discrimination

- **Personal-Prejudice Models: Customer Discrimination**
  - implication of customer discrimination
    - it will lead to segregation in the occupations with high customer contact
      - firms that cater to discriminatory customers will hire only the preferred group of workers, pay higher wages, and charge higher prices
      - than firms that employ workers from disfavoured groups and that serve non-discriminatory customers
    - customers must be willing to pay the added costs to continue their discriminatory behaviour

Theories of Market Discrimination

- **Personal-Prejudice Models: Employee Discrimination**
  - white male workers may avoid situations in which they will have to interact with minorities or women in ways they consider distasteful
    - if white male workers have discriminatory preferences, they tend to quit or avoid employers who hire and promote on a nondiscriminatory basis
    - employers who wish to employ workers in a nondiscriminatory fashion have to pay white males a wage premium (a compensating wage differential) to keep them
  - why would non-discriminating employees pay a premium when they could hire equally qualified and less expensive women or minorities?
    - white males: large fraction of the labour force, so it is difficult to produce without them
    - “availability” of women and minorities to be employed outside of “traditional” occupations relatively recent

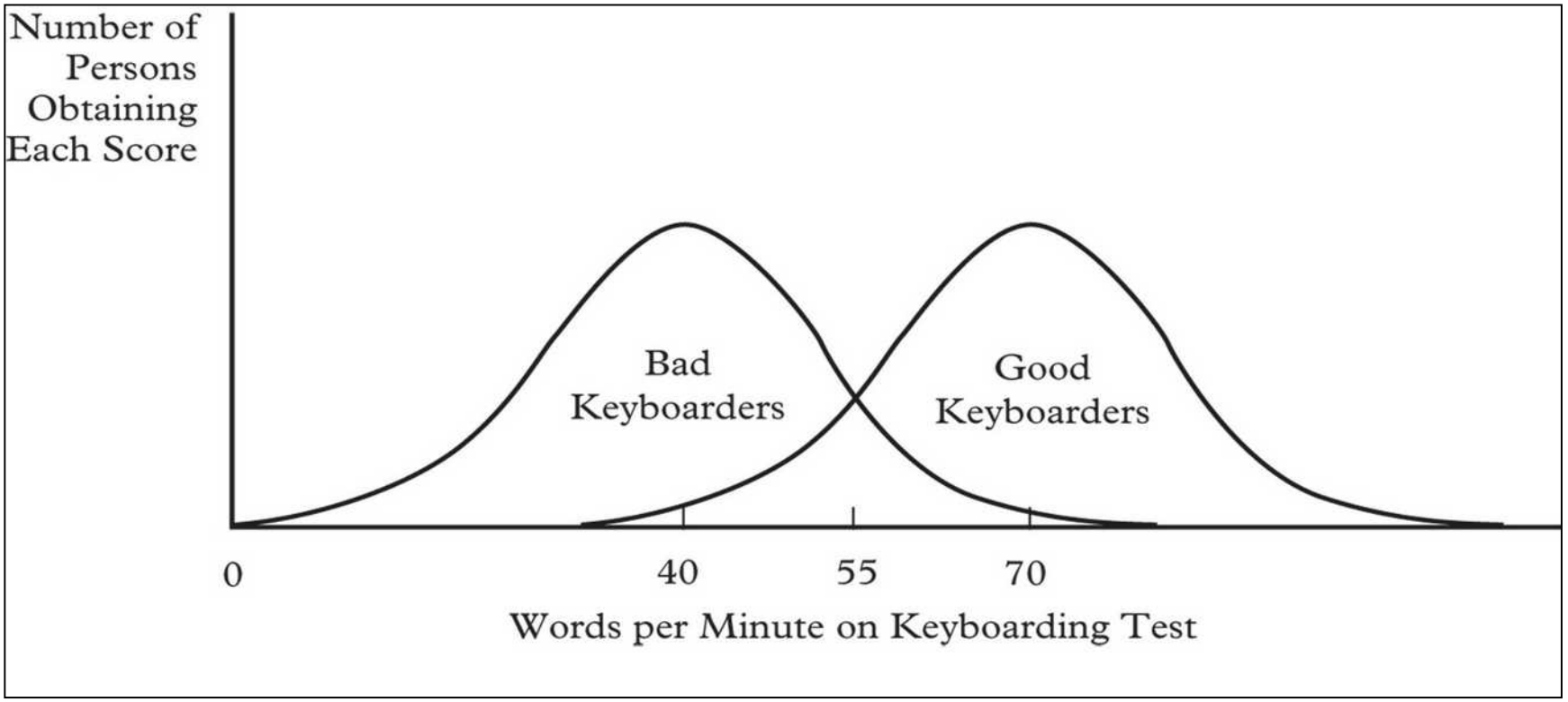
Theories of Market Discrimination

- **Statistical Discrimination**
  - to guess the potential productivity: firm may use information on the average characteristics of groups
  - if group characteristics are factored in, statistical discrimination can result, even without personal prejudice
  - statistical discrimination: screening problem that arises when observable personal characteristics are not perfect predictors of productivity
    - people with the same measured productive characteristics (test scores, education, etc.) will be treated differently depending on group affiliation
  - if statistical discrimination does not derive from prejudice, then employers will show evidence of “learning”

Theories of Market Discrimination

- **Statistical Discrimination**

The Screening Problem



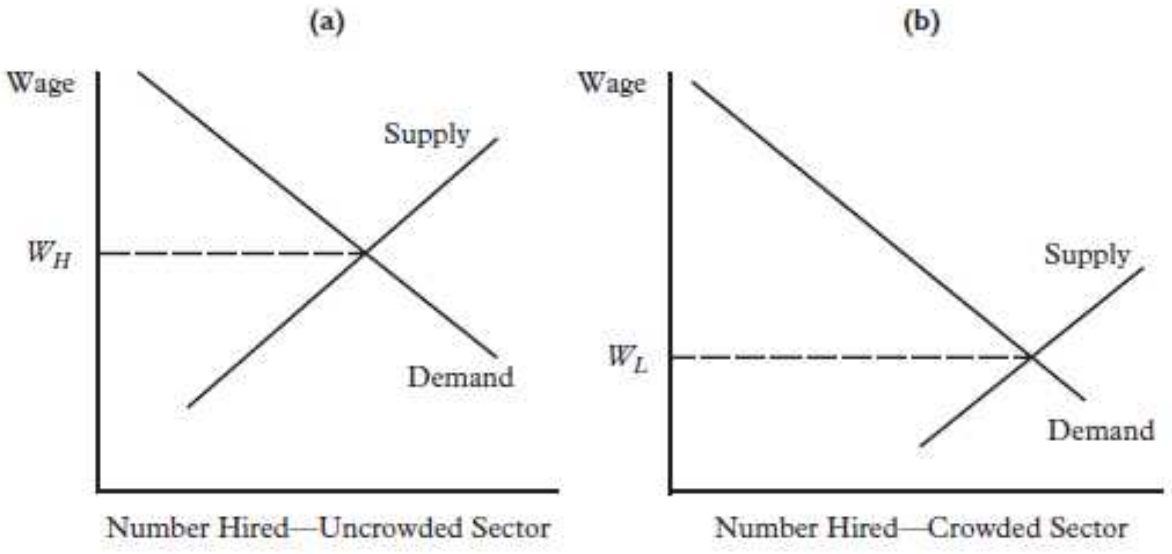
Theories of Market Discrimination

- **Noncompetitive Models of Discrimination**

  models that assume that individual firms have some influence over the wages they pay, either through collusion or through some source of monopsonistic power

Theories of Market Discrimination

- **Noncompetitive Models of Discrimination**
  - **crowding - occupational segregation is the result of a deliberate crowding policy intended to lower wages in certain occupations**



Panel (a): wage W_H is relatively high while
Panel (b): crowding causes supply to be large relative to demand thus resulting in wage W_L that is comparatively low – female-dominated sector.

- **Existence of crowding** or occupational segregation: suggests the presence of **noncompeting groups** (barriers to employee mobility)
- **why do groups exist?**
- social custom, differences in aptitude (innate or acquired), and different supply curves of men and women to monopsonistic employers

no explanation is complete

Theories of Market Discrimination

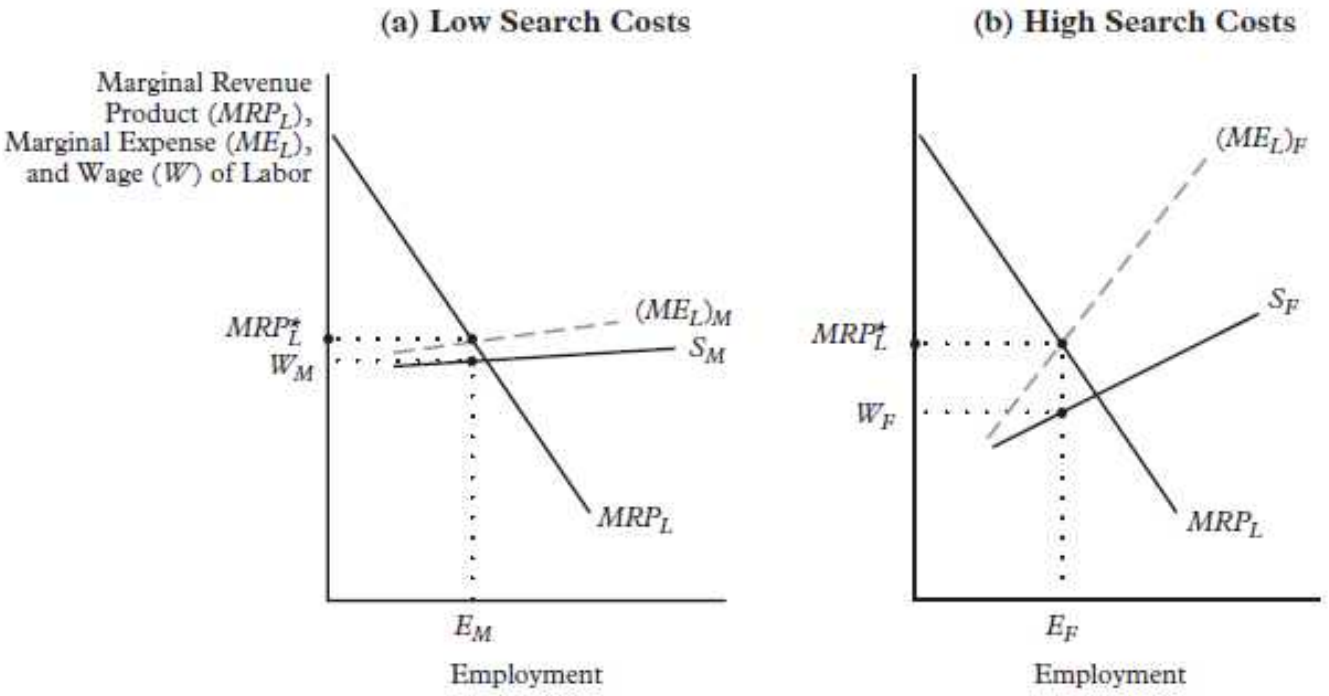
- **Noncompetitive Models of Discrimination**
  - **dual labour markets - the labour market is divided into two noncompeting sectors: a primary and a secondary sector**
    - **jobs in the primary sector: relatively high wages, stable employment, good working conditions, and opportunities for advancement**
    - **secondary-sector jobs: low-wage, unstable, dead-end jobs with poor working conditions**
      - **returns to education and experience close to zero**
      - **workers - primarily minorities and women - are tagged as unstable, undesirable workers and are thought to have little hope of acquiring primary-sector jobs**
    - **the theory does not explain why noncompeting sectors arose – but there is evidence that two distinct sectors of the labour market exist. The theory explains the persistence of discrimination.**

Theories of Market Discrimination

- **Noncompetitive Models of Discrimination**
  - **search-related monopsony – a model of restricted mobility due to job search costs for employees**
    - **some, but not all, employers refuse to hire minorities or women owing to their own prejudices, those of their customers, or those of their employees.**
    - **no employers rule out the hiring of white males**
    - **minorities and women looking for jobs do not readily know who will refuse them, so they have to search longer and harder than do white men to generate the same number of job offers**
    - **employee job search costs cause firms' labour supply curves to slope upward**

Theories of Market Discrimination

- **Noncompetitive Models of Discrimination**
  - **search-related monopsony**



Same MRP but different search costs generates different wages

Panel (a) depicts the supply curve and MRP_L for white males with relatively low search costs. The labor supply curve (S_M) is relatively flat, which means the *marginal* expense of labor curve $(MEL)_M$ is relatively flat.

Panel (b) shows the relevant curves for women and minorities with higher search costs, which imply a more steeply sloped labor supply curve (S_F) and marginal expense of labor curve $(MEL)_F$.

Comparing panels (a) and (b), $W_F < W_M$ despite the fact that both groups have the same MRP_L^*.

Theories of Market Discrimination

- **Noncompetitive Models of Discrimination**
  - search-related monopsony
    - if prejudice increases the job search costs for women and minorities members of these groups are less likely to search for alternative offers of employment and their job matches will be of lower quality than the job matches for white men
    - individual women and minority-group members would be less likely to find the employers who can best utilize their talents
    - even within narrowly defined occupational groups, minorities and women would tend to be less productive and receive less pay than white men, owing to poorer-quality matches

Theories of Market Discrimination

- **Noncompetitive Models of Discrimination**
  - collusive behaviour
    - employers collude with each other to subjugate minorities or women creating a situation in which monopsonistic wages can be forced on the subjugated group
    - prejudice and the conflicts it creates are inherent in a capitalist society because they serve the interests of owners – workers divided by race or gender harder to organize and less cohesive in their demands
    - if all white employers (say, *A* through *Y*) conspire by agreement to keep women and minorities in low-wage, low-status jobs, they can all reap monopoly profits
    - employer *Z* can break the agreement by hiring women or minorities cheaply and enhance its profits by hiring these equally productive workers, even though other employers agree not to hire them

Theories of Market Discrimination

- **A Final Word on the Theories of Discrimination**
  - all models of discrimination agree on one thing - any persistence of labour market discrimination is the result of forces that are either noncompetitive or very slow to adjust to competitive forces
  - the various theories and the facts they seek to explain suggest that government intervention might be useful in eliminating the noncompetitive (or sluggish) influences