

Economics of Discrimination

Maitreesh Ghatak (Weeks 1-5)

Course Description: This course will cover the economics of discrimination guided by economic theory and evidence. In the first part of the course, we will look at some broad stylized facts relating to discrimination in the labour market (both racial and gender) and then cover some of the leading economic theories of the causes and consequences of discrimination, why it tends to persist despite the economic inefficiencies involved, the role for corrective policies, and to the extent the negative effects of discrimination can get transmitted inter-generationally. The second part of the course to be taught by Christiane Szerman (Weeks 6-10) includes the empirical measurement of discrimination, an overview of the economic consequences of racial and gender discrimination, which policies have been implemented to promote equality for underrepresented groups, and what is the relationship between economic inequality and intergenerational mobility. The second part will also cover econometric methods that have been used in the literature on the economics of discrimination. Both parts will have some overlaps in terms of topics, and in some cases, papers. However, they are designed to be complementary, with the first part posing stylized facts and questions, and then trying to interpret them using some simple theoretical models, while the second part, will examine the empirical implications of the theory and will focus on issues of measurement and causal identification.

Prerequisites: This course combines theory and empirics and requires a good understanding of microeconomic theory and econometrics.

Readings: The material consists of academic papers, newspaper or online articles, and podcasts. Papers marked with one star (*) and with two stars (**) are required to be read before the lecture.

Assessments: There will be a combination of problem sets and short written reports as *part of your formative coursework*. The problem sets will cover both theoretical and empirical topics covered in the lectures. The written reports should be 1 page. They should summarize a (**) paper that will be discussed in class and provide two major comments on the assigned paper. Examples of comments can be suggestions for future research, questions relevant to the paper that it does not address, major concerns related to the analysis and suggestions for investigating them, and alternative interpretations of the evidence that the authors did not consider. The goal of these written reports is to get

you to think actively and critically about the topics we will discuss. The written assignments (problem sets or written reports) will be discussed in the classes.

The summative part of assessment will be an essay which takes up a specific question related to the topics covered in the course and provides a critical assessment of the literature, both policy and academic, discussing both what we know, and the gaps in our knowledge or understanding of the processes and mechanisms at work.

PART I:

The starred readings are required but students are only required to read the relevant parts of these papers that will be covered in the lecture.

Lecture 1: Race and Gender Discrimination – Introduction and Some Stylized Facts

In this lecture we will overview some broad stylized facts concerning racial/ethnic and gender discrimination in the labour market and outline the key questions that the theoretical models of discrimination try to address.

(*) Lang, Kevin and Jee-Yeon K. Lehmann (2012); “Racial Discrimination in the Labor Market: Theory and Empirics”, *Journal of Economic Literature*, Vol. 50, No. 4, pp. 959-1006.

(*) Blau, Francine D. and Lawrence M. Kahn (2017): “The Gender Wage Gap: Extent, Trends, and Explanations,” *Journal of Economic Literature* 2017, 55(3), 789–865.

(*) Jayachandran, Seema (2015): “The Roots of Gender Inequality in Developing Countries,” *Annual Review Economics*, 7:63–88.

Bertrand, Marianne (2018): “The Glass Ceiling,” *Economica* (2018) 85, 205–231.

Albanesi, Stefania, Claudia Olivetti, and Barbara Petrongolo (2022): “Families, labor markets and Policy”, *Centre for Economic Performance Discussion Paper No. 1887*, November 2022

Lecture 2: Models of Taste and Statistical Discrimination

In this lecture we will cover theories of why discrimination exists in the economic sphere and its consequences covering two of the canonical models of discrimination that economists use, namely, taste-discrimination and statistical discrimination.

(*) Charles, Kerwin Kofi and Jonathan Guryan (2008): "Prejudice and Wages: An Empirical Assessment of Becker's The Economics of Discrimination," *Journal of Political Economy*, 2008, vol. 116, no. 5, pp 773-809.

(*) Altonji, Joseph G. and Rebecca M. Blank (1999): "Race and gender in the labor market", Chapter 48 in the *Handbook of Labor Economics*, Volume 3, Part C, 1999, Pages 3143-3259.

(*) Altonji, Joseph G. and Charles R. Pierret (2001): "Employer Learning and Statistical Discrimination", *The Quarterly Journal of Economics*, Vol. 116, No. 1 (Feb., 2001), pp. 313-350.

Lang, Kevin and Jee-Yeon K. Lehmann (2012); "Racial Discrimination in the Labor Market: Theory and Empirics", *Journal of Economic Literature*, Vol. 50, No. 4, pp. 959-1006.

Lecture 3: What causes discrimination to persist?

In this lecture we will address the question as to why economic forces do not tend to eliminate discrimination to the extent they lead to inefficient economic outcomes, and to the extent the effects of discrimination can transmit intergenerationally.

(*) Ghatak, Maitreesh and Zaki Wahhaj (2022): "Can Discriminatory Behaviour Persist in Competitive Labour Markets?", Working Paper, London School of Economics.

(*) Akerlof, George (1976): "The Economics of Caste and of the Rat Race and Other Woeful Tales", *The Quarterly Journal of Economics*, Nov., 1976, Vol. 90, No. 4 (Nov., 1976), pp. 599-617

(*) Bowles, Samuel, Rajiv Sethi and Glenn C. Loury (2014): "Group Inequality," *Journal of the European Economic Association*, February 2014, Vol. 12, No. 1 (February 2014), pp. 129-152.

Ghatak, Maitreesh (2015): "Theories of Poverty Traps and Anti-Poverty Policies", World Bank Economic Review, Papers and Proceedings of the ABCDE, Vol 29 (Supplement 1): S77-S105.

Lang, Kevin and Jee-Yeon K. Lehmann (2012); "Racial Discrimination in the Labor Market: Theory and Empirics", Journal of Economic Literature, Vol. 50, No. 4, pp. 959-1006.

Lecture 4: Economics of the Family and Gender Discrimination

While some of the models of discrimination and its persistence applies to all disadvantaged social groups, including race and gender, family and household-related factors such as marriage and fertility, put women at an additional disadvantage. In this lecture we will look at some theoretical models that capture some of the issues.

(*) Doepke, Matthias and Fabian Kindermann (2019): "Bargaining over Babies: Theory, Evidence, and Policy Implications", American Economic Review 2019, 109(9): 3264–3306.

(*) Albanesi, Stefania, Claudia Olivetti, and Barbara Petrongolo (2022): "Families, labor markets and Policy", Centre for Economic Performance Discussion Paper No. 1887, November 2022

Cortés, Patricia and Jessica Pan (2023): "Children and the Remaining Gender Gaps in the Labor Market," Journal of Economic Literature 2023, 61(4), 1359–1409.

Nobel Prize Committee (2023): "History helps us understand gender differences in the labour market", Citation of Claudia Goldin's contribution.

Lecture 5: Affirmative Action Policies

In this final lecture of the first half of the course, we will look at affirmative action policies and their pros and cons in terms of dealing with root causes as well as the consequences of discrimination.

(*) Coate, Stephen, and Glenn C. Loury. "Will Affirmative-Action Policies Eliminate Negative Stereotypes?." American Economic Review (1993): 1220-1240.

(*) Fang, Hanming and Andrea Moro (2011): “Theories of Statistical Discrimination and Affirmative Action: A Survey,” Chapter 5, Handbook of Social Economics, North-Holland, Volume 1, Pages 133-200,

Chung, Kim-Sau (2000): “Role Models and Arguments for Affirmative Action,” The American Economic Review , Jun., 2000, Vol. 90, No. 3 (Jun., 2000), pp. 640-648.

Holzer, Harry and David Neumark (2000): “Assessing Affirmative Action,” Journal of Economic Literature , Sep., 2000, Vol. 38, No. 3 (Sep., 2000), pp. 483- 568.

Loury, Glenn C. (2022): “Relations before Transactions: On Persistent Racial Inequality in the United States,” The Morishima Lecture, London School of Economics, May 31, 2022.

Fryer Jr., Roland G. and Glenn C. Loury (2005): “Affirmative Action and Its Mythology,” Journal of Economic Perspectives, Volume 19, Number 3, pp 147–162.

Affirmative Action - Stanford Encyclopedia of Philosophy
(<https://plato.stanford.edu/entries/affirmative-action/>)