

## **Lecture Outline for: Neoclassical Economics Theory of Discrimination**

Reading: UPF Ch. 5 (pp. 89-100, 106-117)

### I. Some Questions

- How does discrimination enter our economics model?
- How can discrimination exist when it is clearly inefficient?
- What happens to discrimination in the long-run – i.e. will it persist indefinitely without government intervention?
- What are some proactive ways to combat discrimination?

### II. Kinds of Discrimination

- A. Models based on prejudice
  - ‘Taste for discrimination’
  - Consumer discrimination
  - Employer discrimination
  - Employee discrimination
- B. Models based on lack of information: Statistical discrimination
  - Transactions costs
  - Efficiency issues

### III. Market and Discrimination

- A. Prejudicial discrimination – as long as one firm does not discriminate (in a competitive market), the market will get rid of discrimination in long run
- B. Statistical discrimination

### IV. Why Doesn't Discrimination Disappear?

- A. Discriminatory effects are apparent only and not real (i.e. there is no discrimination)
- B. Discrimination is slow to disappear
- C. Consumer discrimination can persist
- D. Monopoly power can sustain discrimination
- E. Discrimination takes place before the market can intervene (supply side factors)

### V. Policies of Government Intervention (a preview)

- A. Affirmative Action
- B. Comparable Worth