

Prejudice and Wages: An Empirical Assessment of Becker's The Economics of Discrimination

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Introduction

- ▶ Becker's model

Introduction

- ▶ Becker's model
- ▶ Arrow's (1972) famous criticism: since prejudiced employers sacrifice profits by discriminating, such employers are ultimately driven from the market in the long run in a competitive setting.

Theoretical overview: Becker's Employer Discrimination Model

$$V_i = \pi_i - d_i L_b \quad (1)$$

where π is the employer's profit and V_i is employer's utility.

In equilibrium:

$$w_a^* = w_b^* + d_i^* \quad (2)$$

Where w_a and w_b denote white and black wages.

Data Summary

TABLE 1
DEMOGRAPHIC TRAITS AND INDIVIDUAL-LEVEL PREJUDICE

	AGGREGATE INDEX OF INDIVIDUAL PREJUDICE				NOT VOTE FOR A BLACK FOR PRESIDENT			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Age/10	.090 (.003)			.071 (.002)	.030 (.003)			.022 (.002)
Education		-.057 (.003)		-.047 (.002)		-.021 (.002)		-.018 (.002)
Female			-.038 (.006)	-.068 (.005)			-.016 (.006)	-.026 (.005)
Observations	35,757	35,780	35,864	35,684	16,441	16,463	16,491	16,416
R ²	.16	.17	.11	.20	.07	.08	.05	.09
	SUPPORT A LAW AGAINST INTERRACIAL MARRIAGE				WHITES HAVE RIGHT TO SEGREGATE NEIGHBORHOODS			
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Age/10	.070 (.003)			.054 (.002)	.137 (.005)			.105 (.005)
Education		-.044 (.003)		-.035 (.002)		-.086 (.004)		-.070 (.004)
Female			.030 (.006)	.009 (.005)			.017 (.013)	-.030 (.011)
Observations	23,368	23,378	23,433	23,319	15,294	15,304	15,337	15,264
R ²	.20	.21	.12	.26	.17	.17	.11	.20

Base empirical results

TABLE 3
ESTIMATED RELATIONSHIP BETWEEN RACIAL PREJUDICE OF WHITES IN A LABOR MARKET
AND BLACK-WHITE RELATIVE WAGES
Dependent Variable: Residual Black-White Wage Gap in Market

Measure of Prejudice among All Whites	(1)	(2)	(3)	(4)	(5)	(6)
Average	-.036 (.030)		.097 (.029)	.050 (.033)		
Marginal		-.213 (.040)	-.328 (.050)	-.202 (.068)		
10th percentile					-.212 (.180)	-.292 (.125)
Median					-.006 (.062)	.007 (.043)
90th percentile					.016 (.029)	.016 (.020)
Fraction black				-.157 (.062)		-.304 (.045)
State	45	45	45	45	45	45
R^2	.03	.40	.52	.59	.05	.56

Extensions: Accounting for Endogenous Preferences and Racial Composition

- ▶ Can a causal inference be interpreted?
- ▶ Racial skill differences
- ▶ Quality of school
- ▶ Historical effects

Conclusion

- ▶ A present discount loss in annual earnings for blacks is between \$34,000 and \$115,000.
- ▶ An important area for future work would be to assess how racial prejudice affect other important outcomes such as migration or occupational choice.

Thank you!