

Lecture 12. Labour Market Discrimination and Human Capital Investment

1. Discriminations in the Labour Market

Discriminations are often measured in terms of pay differentials holding employee productivity constant. However, they can also be measured in terms of differential treatment in employment, promotion and training opportunities.

- gender discrimination
- racial and ethnicity discrimination
- age discrimination
- disability discrimination

2. Theories of Discrimination

(1) Personal-prejudice models

- employer discrimination
- co-worker discrimination
- customer discrimination

(2) Statistical discrimination

Due to the cost of information, employers may judge the performance of certain individual workers based on the average performance of the groups that they belong to. So discrimination may arise when those workers' performance diverge significantly from the group norms.

(3) Noncompetitive models of discrimination

- occupational crowding
- segmented labour markets
- search-related monopsony
- employer collusive behaviour

3. Empirical findings

The average female/male wage ratio is about .85 (meaning that the average female pay is 85% of the average male pay). Does this constitute gender discrimination? Most of this difference, however, can be explained by gender-related differences in:

- educational attainment,
- prior work experience,
- average weekly hours of work (on average, full-time male employees work approximately 10% more hours than full-time female employees), and
- occupational choice.

Some studies have found that these factors account for all of the gender wage gap, while others suggest that up to 1/4 of the wage gap cannot be explained using these variables. Even if these factors account for all of the wage gap, it is still possible that discrimination may be the sources of the differences in education, employment, and occupational choice.

4. Discrimination and human capital investment

It discourages investment in human capital of the discriminated groups and hence may perpetuate the problem of discrimination and inequality.

Extra readings:

Sung, Yun-Wing, Zhang, Junsen and Chan, Chi-shing. (2001). "Gender Wage Differentials". *Pacific Economic Review*, 6(3):pp345-360.