Topics in Economics of Discrimination: Outline I

I. Preliminaries
1. Definition of Discrimination
   a. Economic Definition: To offer different transaction terms to individuals differing only by group membership.
   b. Discrimination as deviation from competitive equilibrium, e.g. deviation from \( W = MRP = P*MP \).

2. Overview of the perfect labor market: (Firm’s maximize profit and workers maximize utility)
   a. Supply side: individuals rent time on market provided utility from wage equals value of time.
   b. Demand Side: Firms hire up to point where wage equals value of output of last unit employed (\( W = MRP \)).
   c. At equilibrium, \( W = MRP = \) worker value of time.
   d. Discrimination is a deviation from perfect equilibrium.

3. Some deviations from perfect labor markets.
   a. Wage setting union: constraints on wage adjustment.
   b. Supply fixing licenses: constraints on quantity adjustments.
   c. Job rationing due to the business cycle.

4. Accommodating heterogeneity in jobs or workers.
   a. Compensating differentials and equilibrium wages.
   b. Human Capital and equilibrium wages.

II. Time Allocation in the household 0-1900
1. History before 1700
   a. Households were at subsistence or less
   b. Everyone (mother, father, children) worked
   c. Specialization by gender prevalent even in primitive societies

2. Agricultural Revolution
   Immediate consequences
   a. lowered food prices
   b. raised real urban wages
   c. freed up rural labor supply for urban work
   d. improved nutritional status of the populace
   e. increased capacity for work
   f. increased capacity for human capital development
   g. increased income per capita

3. Industrial Revolution: 1780+ in England; 1820+ in the U.S.
   Outcomes
   a. increased life expectancy, stature, BMI, brain capacity
   b. raised stature and life expectancy earlier in the U.S. than Europe
c. raised literacy for middle and laborer classes  
d. decreases in mortality rates  
e. Eventually raised incomes, life expectancy sufficiently to  
   Give incentives to invest in human capital  
   Allow children to go to school rather than work

4. Development of specialization in urban areas during the Industrial Revolution  
   a. Separation of work between market and household  
   b. Urban areas are polluted, disease ridden and unsanitary  
   c. Mothers specialized in child care, household production  
   d. Children, Fathers specialized in factory work  
   e. Single Women work  
   f. substitutes for mother’s child care: wet nurses, fostering, overlaying  
Other examples: Missing girls in China, India

5. Riskiness of specialization in the home—death of the spouse  
   Widows and orphans  
   Orphan trains and children shipped to Canada

6. Child labor starts to decline by 1840 in the U.S.  Almost gone by 1930.

III. Time allocation 1900 +  
Time path of female labor force participation  
   a. Single women work  
   b. 1900-1990: steady rise in female labor force participation  
   c. U-shaped pattern for married women  
      Initially as GDP/capita rises, women drop out of labor force  
      As GDP/capita continues to rise, labor force participation rises  
   d. Married women  
      1900: most married women were homemakers  
      Working married women were from poor households  
      Rise of the marriage bar  
      College-educated women  
      remained single, or  
      did not work if married  
      1950s: End of the marriage bar  
      1970s: start of slow progress on career mothers  
      1900-1990: steady rise in married female labor force participation  

4. Factors affecting time allocation  
   a. decline of market for child labor and the rise of public education  
   b. household technology  
      coal-wood to electricity  
      time saving household appliances  
      transportation
c. market wages
   rising wages for both men and women
   rising relative wages for women
d. Tastes
   economists assume tastes fixed
   Causality?: Do tastes change behavior or does behavior change affect tastes?

IV. Becker’s theory of marriage
   a. Trade model
   b. Productivity in the market and in household production
c. comparative advantage and gains from trade
d. Gains from specialization
e. Implications of equalizing market wages and/or equalizing home time productivity
f. Threat points and marriage as a bargaining game
g. Measuring the value of household production
   opportunity cost of time underestimates
   Replacement cost or market cost overestimates

Time allocation of couples
   a. Patterns over time: men decrease and women increase market time
   b. women decrease and men slightly increase home time
b. Patterns compared to other countries
c. Overall work time versus market time or home time

Evidence on marriage formation and dissolution
   Marriage rates in the U.S. and elsewhere
   Divorce
   Cohabitation
   Same-Sex Couples
   Does evidence support the Becker theory?

Costs of marriage and marriage rates
   Minimum age laws
   Anti miscegenation laws
   No fault divorce
   Blood tests

The Marriage Market
   Positive Assortative Mating
   The role of scarcity or surplus in the marriage market—attracting quality mates
   Example: Smoking
   Example: Black women
   William Julius Wilson
   Male incarceration rates

V. Intergenerational Transmission of wealth and poverty
   Bequests
Human Capital Investments
Financial Assets
Liquidity constraints
Transfers by poor households will be in human capital investments.
Names: do culturally unique names cause adverse outcomes for kids?

Why aren’t all groups taking advantage of the rising returns to schooling?
   a. Underinvestment by minorities
      Poverty in Central Cities
      Neighborhood effects: Mixed evidence
      Gautreaux
      Moving to Opportunity
      Single parents vs two parents
      Matters but not large effects
      Incarceration
      Low income correlated with low education: liquidity constraints
   b. Heckman’s approach: noncognitive skills
      GEDs as disguised dropouts
      College entry and
      Household income
      Individual ability (AFQT)
      Controlling for maternal education, marital status and skill
      Importance of cognitive and noncognitive skills
      Years of Schooling completed
      Incarceration
      Transfer of human capital across generations: the role of maternal skills

   c. Solutions
      Human Capital: Early interventions are most effective and cheaper
      Evidence
      Pre school: Perry Preschool and Head Start
      Kindergarten: The Tennessee STAR experiment
      In school: Quantum

V. Labor Supply
   Definitions:
      Population
      Labor force participation
      Employment
      Unemployment
      Labor Force Participation Rate
      Evidence: Leisure consumption

VI. Household production theory
   a. isoquants: combinations of time and market goods that yield the same level of utility
      diminishing marginal productivity implies convex shape
flatter implies easier substitution of goods for time
Slope = -(MP_T / MP_G)

b. Budget constraint
Time budget
  Fixed time
  Flexible time
Wage
Nonlabor income
Slope = - real wage = -W

c. Optimum
W = (MP_T / MP_G)

d. Normal inputs: as output rises, use more of input

e. Response to change in nonlabor income: pure income effect

f. Response to change in real wage: Income and substitution effects
Wage increase implies
  income effect toward home time and market goods
  substitution effect toward goods, away from home time

g. Wage effects
For men, income and substitution effects are of roughly equal size
For women, substitution effect dominates