

Accepted Manuscript

Title: Incentives for Discrimination

Author: Sue H. Mialon Seung Han Yoo

PII: S0167-2681(17)30027-6

DOI: <http://dx.doi.org/doi:10.1016/j.jebo.2017.01.021>

Reference: JEBO 3974



To appear in: *Journal of Economic Behavior & Organization*

Received date: 13-10-2015

Revised date: 27-12-2016

Accepted date: 28-1-2017

Please cite this article as: Sue H. Mialon, Seung Han Yoo, Incentives for Discrimination, *Journal of Economic Behavior and Organization* (2017), <http://dx.doi.org/10.1016/j.jebo.2017.01.021>

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Incentives for Discrimination*

Sue H. Mialon[†]

Seung Han Yoo[‡]

December 23, 2016

Abstract

This paper models employers' incentives for discrimination against *ex ante* identical groups of workers when the workers must compete for a limited number of positions. Employers benefit from discrimination against minority workers because it can reduce the overall risk from workers' noisy signals by increasing the expected quality of "majority" workers and their chance to win the competition for the limited number of positions. We show that employers can influence the selection of a discriminatory equilibrium by choosing the set of finalists in competition primarily from a majority group, and favoring them when the two groups are equally qualified. We discuss the implications of equal opportunity laws in this context.

Keywords and Phrases: Statistical Discrimination, Group inequality, Asymmetric information, Cross-Group Risks

JEL Classification Numbers: D63, D82, J71

*This is a revised version of the paper entitled "Employers' Preference for Discrimination." We are particularly grateful to the editor, the associate editor and an anonymous referee for their insightful comments to improve our paper. We are also grateful for the helpful comments of Yeon-Koo Che, Stephen Coate, Glenn Loury, Larry Samuelson, Rajiv Sethi and seminar participants at Korea, Hanyang University, the PET10, Singapore Management University, the SAET conference and the World Congress of the Econometric Society. Section 2 of this paper was drawn from Section 2 of a working paper that was circulated under the title "A Theory of Group Inequality" between 2010 and 2013 (Discussion Paper Series 1309, Korea University). Seung Han Yoo acknowledges that this work was supported by a National Research Foundation of Korea grant that was funded by the Korean government (NRF-2013S1A5A8024499).

[†]Department of Economics, Emory University, Atlanta, GA 30322 (e-mail: smialon@emory.edu).

[‡]Department of Economics, Korea University, Seoul, Republic of Korea 136-701 (e-mail: shyoo@korea.ac.kr).

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