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Incentives for Discrimination*

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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**

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