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Presentation Title
An Economic Theory of Differential Treatment

Abstract

When does efficiency justify affirmative action and gender equity policies in education and labor markets? Or, more generally, when does efficiency require differential treatment based on observable and surplus-irrelevant characteristics, such as race, gender, or socioeconomic status? This paper proposes an assignment model of differential treatment, where a policymaker assigns agents to different treatments or positions in order to maximize total surplus, based on the agents' characteristics and on noisy information about their types (i.e. abilities or productivities). I provide necessary and sufficient conditions on the agents' signaling structures which characterize whether surplus maximization requires differential treatment or not, in a general non-parametric information economics framework. I show that under certain reasonable conditions the optimal assignment policy is characterized by an index which measures the agents' expected marginal benefits from different treatments, and also examine further conditions on the bias and informativeness of signaling structures that determine the efficiency implications of differential treatment. The model also provides novel questions and predictions for empirical research on the economics of discrimination.

Keywords

Affiliation

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