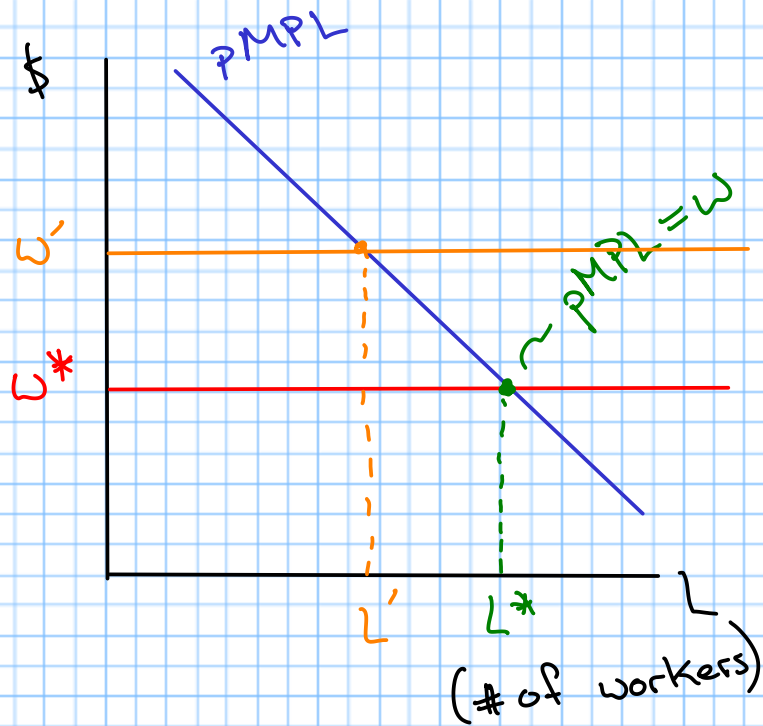


Labor market



w^* = market wage rate
 firm employs L^* workers

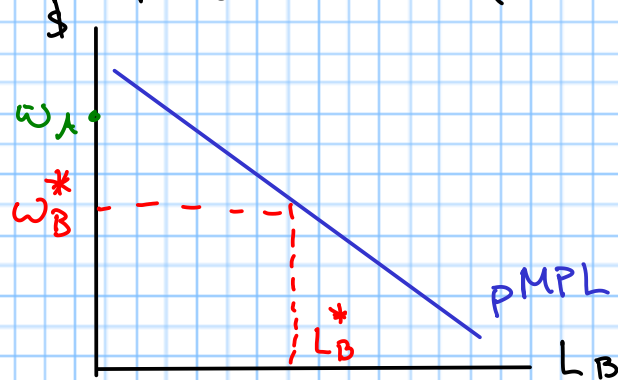
Suppose w increases w'

L decreases to L'

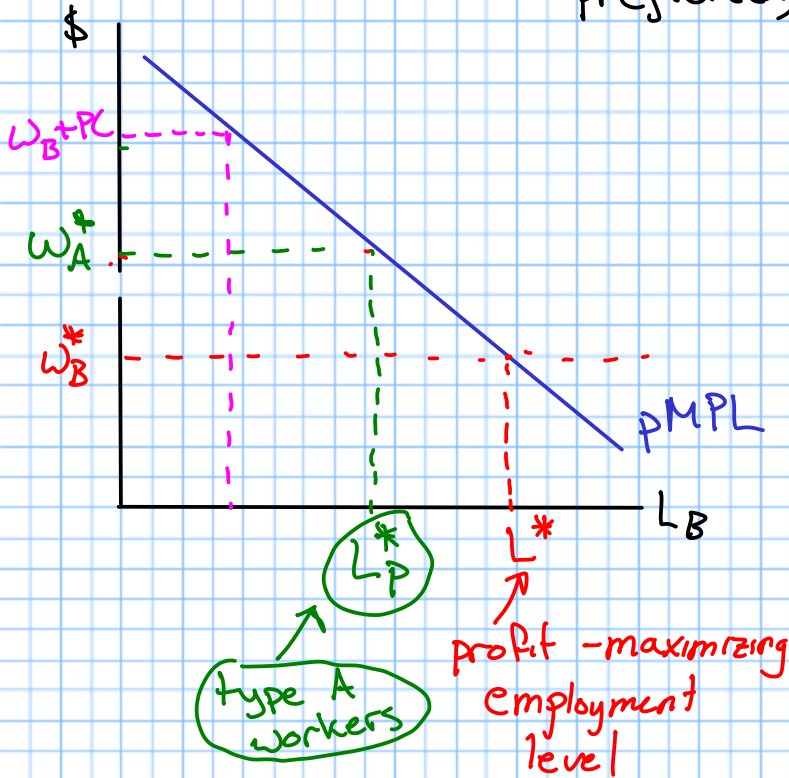
→ as the price of a factor increases, less of it is used in production

Segregated firms

No prejudice ($P_C = 0$)

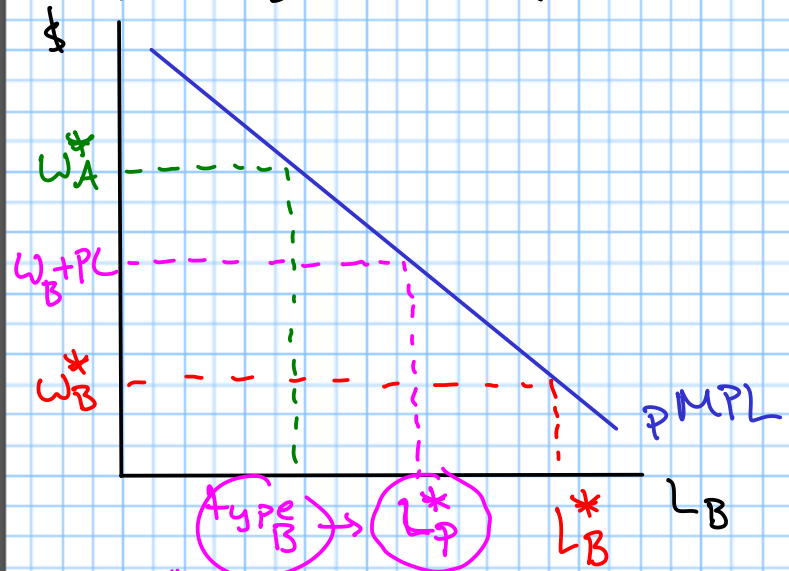


$\omega_A < \omega_B + PC$ (Super prejudiced)



$L_p^* < L^*$
 → firm is not profit maximizing

$\omega_A > \omega_B + PC$ ($PC > 0$)



$L_p^* < L_B \rightarrow$ under employment
 → profits are lower