

Homework 8

Due Wednesday, April 22, 2009

1. Suppose that income, I , is the only variable that affects health outcomes. The equations for the health status, H , of black and white men are given by:

$$H_w = 500 + 100I$$

$$H_b = 300 + 75I$$

On average, whites have \$50,000 in income and blacks have \$40,000 in income. Let I equal income in thousands (so the average I for whites is 50 and the average I for blacks is 40).

- (a) What is the black-white health differential?
- (b) Using the Oaxaca-Blinder decomposition, calculate how much of this health differential is due to discrimination.