

The Effect of Occupational Choice and Stereotypes on Labor Market Sorting*

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Abstract

We incorporate competition for jobs into a model of occupational choice to characterize the distortions when stereotypes induce some workers to incur disutility from jobs in conflict with their identity (e.g. gender or race). If stereotypes are absent, positive assortative matching between workers of differing ability and jobs of heterogeneous quality arises as unique equilibrium. Workers sort across occupations if and only if the distribution of jobs in one occupation dominates the other in terms of Likelihood Ratio Dominance. Under this assumption, we characterize the distortions—to job-quality, resources spent in competition, and workers’ utility—when stereotypes exist either in the dominating or the dominated occupation. Although some workers may obtain identical jobs as in the absence of stereotypes, the resources they spent are affected, underlining the relevance of accounting for workers’ competition. Our theory informs policymakers about the equilibrium responses to policies aiming at a reduction of occupational segregation.

Keywords: Labor market sorting; Positive assortative matching; Occupational choice; Stereotypes; Occupational segregation.

JEL classification: D31, D47, J21, J24.

1 INTRODUCTION

In spite of falling labor-market discrimination and declining obstacles to human capital accumulation, we continue to observe large degrees of occupational segregation (Charles and Grusky, 2005). When workers segregate with respect to attributes that are orthogonal to abilities—such as gender or race—balancing occupational choices bears a potential for improving allocative efficiency. In fact, Hsieh et al. (2019) estimates that 40% of growth in U.S.-GDP per person during 1960-2010 can be attributed to a reduction in occupational segregation. More specifically, policies aimed at a reduction of occupational segregation can alleviate labor-supply shortages in care-taking jobs

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