

Quiz on Unemployment Insurance

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Question 1

Unemployment insurance (UI) may affect the behavior of both firms and workers. When UI becomes more generous, how do firms modify their behavior?

- A) Firms that bargain wages with workers end up paying lower wages.
- B) Firms that bargain wages with workers end up paying higher wages.
- C) Firms become more selective when they hire workers.
- D) Firms become less selective when they hire workers.
- E) Firms are not affected by UI.

Question 2

UI may affect the behavior of both firms and workers. When UI becomes more generous, how do workers modify their behavior?

- A) Workers are more likely to exit the labor force.
- B) Workers are more likely to enter the labor force.
- C) Workers search more intensely for jobs.
- D) Workers search less intensely for jobs.
- E) Workers are not affected by UI.

Question 3

Consider an unemployed worker who searches for a job with effort e . Let f be the probability to find a job per unit of effort. Let c be the consumption of the worker if she finds a job and $b < c$ be the consumption of the worker if she does not find a job. (b is unemployment benefits.) Let v be the worker's utility function over consumption and k be the worker's disutility of search effort. Assume that v is increasing and concave while k is increasing and convex. The unemployed worker maximizes expected utility. What is the unemployed worker's problem?

- A) $\max_e (1 - e \times f) \times v(c) + e \times f \times v(b) - k(e)$

- B) $\max_{e,b,c} e \times f \times v(c) + (1 - e \times f) \times v(b) - k(e)$
- C) $\max_e e \times f \times v(c) + (1 - e \times f) \times v(b) - k(e)$
- D) $\max_e e \times f \times (v(c) - k(e))$
- E) $\max_e e \times f \times (v(c) + v(b) - k(e))$

Question 4

What happens to the optimal effort from the previous question if it becomes easier to find a job (higher job-finding rate f)?

- A) The search effort does not change, because it is only determined by unemployment benefits.
- B) The search effort might decrease or increase, depending on the slope of $k(e)$.
- C) The search effort might decrease or increase, depending on the slope of $v(c)$.
- D) The search effort always decreases.
- E) The search effort always increases.

Question 5

Is the Baily-Chetty level of UI optimal in a matching model of the labor market?

- A) No, except if UI has no effect on labor market tightness.
- B) Yes, except if UI has no effect on labor market tightness.
- C) Yes, except if labor market tightness is inefficiently high.
- D) Yes, except if labor market tightness is inefficiently low.
- E) No, it is never optimal.
- F) Yes, it always optimal.

Question 6

Labor market tightness is inefficiently low in recessions. What does this property implies for the generosity of UI?

- A) UI should be less generous than in the Baily-Chetty framework in recessions.
- B) UI should be more generous than in the Baily-Chetty framework in recessions.
- C) In recessions, UI should be less generous than in the Baily-Chetty framework iff an increase in UI raises tightness.
- D) In recessions, UI should be more generous than in the Baily-Chetty framework iff an increase in UI raises tightness.
- E) This property has no implications for optimal UI.

Question 7

In the United States, what happens to the generosity of the UI system in recessions?

- A) It remains the same.
- B) It decreases automatically.
- C) It increases automatically.
- D) It increases only when new legislation is passed.
- E) It decreases only when new legislation is passed.

Question 8

Consider a matching model with job rationing. What happens over the business cycle?

- A) In bad times, rationing unemployment is high but frictional unemployment is low.
- B) In bad times, rationing unemployment is low but frictional unemployment is high.
- C) In bad times, both rationing unemployment and frictional unemployment are high.
- D) An increase in public employment has a larger effect on total employment in bad times than in good times.

- E) An increase in public employment has a larger effect on total employment in good times than in bad times.
- F) Optimal unemployment insurance is more generous in bad times than in good times.
- G) Optimal unemployment insurance is more generous in good times than in bad times.
- H) The labor market always operate efficiently so policies do not need to be adjusted over the business cycle.