

# **Quiz on Efficient Unemployment**

Pascal Michaillat

### **Question 1**

From a social perspective, what are the costs of lowering unemployment?

- A. Lowering unemployment increases the number of people who are out of the labor force.
- B. Lowering unemployment increases the share of workers who are devoted to recruiting.
- C. Lowering unemployment increases the share of workers who are devoted to producing.
- D. Lowering unemployment reduces the wage of employed workers.
- E. Lowering unemployment raises the wage that firms must pay their employees.
- F. Lowering unemployment has no social cost so it is efficient to bring unemployment all the way to 0%.

### **Question 2**

From a social perspective, what are the costs of raising unemployment?

- A. Raising unemployment lowers the number of people who are out of the labor force.
- B. Raising unemployment increases the number of workers who are devoted to recruiting.
- C. Raising unemployment lowers the number of workers who are employed.
- D. Raising unemployment reduces the wage of employed workers.
- E. Raising unemployment lowers inflation below the 2% target.

### **Question 3**

Under which condition is the unemployment rate efficient in a matching model?

- A. For any wage mechanism.
- B. If wages are rigid enough.
- C. If wages are determined by Nash bargaining.
- D. If wages are determined by Nash bargaining and satisfy the Hosios condition.
- E. There is no wage mechanism that ensures efficiency.

#### Question 4

Consider a model with a Beveridge curve. Let  $\epsilon$  be the elasticity of the Beveridge curve,  $\kappa$  be the recruiting cost, and  $\zeta$  be the social value of nonwork. Which condition is satisfied by labor market tightness  $\theta$  when the labor market operates efficiently?

- A.  $\theta = (1 - \zeta)/\kappa$
- B.  $\theta = [(1 - \zeta)\kappa]/\epsilon$
- C.  $\theta = [(1 - \zeta)\epsilon]/\kappa$
- D.  $\theta = \beta$ , where  $\beta$  is workers' bargaining power
- E.  $\theta = (1 - \zeta)/(\kappa\epsilon)$
- F.  $\theta = (\kappa\epsilon)/(1 - \zeta)$
- G. None of the above

#### Question 5

What are the characteristics of the unemployment gap in the United States?

- A. The unemployment gap is always about zero.
- B. The unemployment gap is generally positive and sharply procyclical.
- C. The unemployment gap is generally negative and sharply procyclical.
- D. The unemployment gap is generally positive and sharply countercyclical.
- E. The unemployment gap is generally negative and sharply countercyclical.
- F. It is not possible to measure the unemployment gap.

#### Question 6

Given the social costs and benefits of unemployment, would it be optimal for the government to bring the unemployment rate all the way to 0%?

- A. In general yes; but no if the social value of unemployment is zero.

- B. In general no; but yes if recruiting costs are zero.
- C. Always no.
- D. Always yes.
- E. In general no; but yes if the social value of unemployment is zero.

**Question 7**

According to the work of Hosios (1990), which condition must be satisfied for the labor market to operate efficiently?

- A.  $\beta = \eta$ , where  $\beta$  is workers' bargaining power and  $\eta$  is the elasticity of the matching function with respect to unemployment
- B.  $\beta = 1 - \eta$ , where  $\beta$  is workers' bargaining power and  $1 - \eta$  is the elasticity of the matching function with respect to vacancies
- C.  $\theta = 1$ , where  $\theta$  is the labor market tightness
- D. The surplus received by firms = the surplus received by workers
- E. None of the above