ECON 2080, part 1
Spring 2022
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Quiz 9: Policies

Question A

Consider a model with a Beveridge curve. Let ϵ be the elasticity of the Beveridge curve, κ be the recruiting cost, and ζ be the social value of nonwork. Which condition is satisfied by labor market tightness θ when the labor market operates efficiently?

1. $\theta = (1 - \zeta)/\kappa$
2. $\theta = [(1 - \zeta)\kappa]/\epsilon$
3. $\theta = [(1 - \zeta)\epsilon]/\kappa$
4. $\theta = \beta$, where β is workers' bargaining power
5. $\theta = (1 - \zeta)/(\kappa\epsilon)$
6. $\theta = (\kappa\epsilon)/(1 - \zeta)$
7. None of the above

Question B

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

1. The unemployment gap is always about zero.
2. The unemployment gap is generally positive and sharply procyclical.
3. The unemployment gap is generally negative and sharply procyclical.
4. The unemployment gap is generally positive and sharply countercyclical.
5. The unemployment gap is generally negative and sharply countercyclical.
6. It is not possible to measure the unemployment gap.

Question C

The public-employment multiplier measures the change in employment when the government hires one extra worker in the public sector. Why is the public-employment multiplier always below 1?

1. Because an increase in public employment raises labor market tightness, which depresses private employment.
2. Because an increase in public employment raises wages, which depresses private employment.
3. Because an increase in public employment lowers labor market tightness, which depresses private employment.
4. Because workers employed in the public sector do not stay long on the job: there is high job separations.
5. The public-employment multiplier is not always below 1.

Question D

Policies are often evaluated according to their bang-for-the-buck: the effect of 1 dollar of spending on employment or output. When will public employment have the largest bang-for-the-buck?

1. Public employment always leads to the employment of one public worker, so it always has the same bang-for-the-buck.
2. Unemployment is low in good times, so that is when public employment has the largest bang-for-the-buck.
3. The public-employment multiplier is largest in bad times, when unemployment is high, so that is when public employment has the largest bang-for-the-buck.
4. The public-employment multiplier is largest in good times, when unemployment is low, so that is when public employment has the largest bang-for-the-buck.

Question E

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?

1. $\max_e (1 - e \times f) \times v(c) + e \times f \times v(b) - k(e)$
2. $\max_{e,b,c} e \times f \times v(c) + (1 - e \times f) \times v(b) - k(e)$
3. $\max_e e \times f \times v(c) + (1 - e \times f) \times v(b) - k(e)$
4. $\max_e e \times f \times (v(c) - k(e))$
5. $\max_e e \times f \times (v(c) + v(b) - k(e))$

Question F

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

1. The search effort does not change, because it is only determined by unemployment benefits.
2. The search effort might decrease or increase, depending on the slope of $k(e)$.
3. The search effort might decrease or increase, depending on the slope of $v(c)$.
4. The search effort always decreases.
5. The search effort always increases.

Question G

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

1. No, except if UI has no effect on labor market tightness.
2. Yes, except if UI has no effect on labor market tightness.
3. Yes, except if labor market tightness is inefficiently high.
4. Yes, except if labor market tightness is inefficiently low.
5. No, it is never optimal.
6. Yes, it always optimal.

Question H

It is typically believed that labor market tightness is inefficiently low in recessions. What does this property implies for the generosity of UI?

1. UI should be less generous than in the Baily-Chetty framework in recessions.
2. UI should be more generous than in the Baily-Chetty framework in recessions.
3. In recessions, UI should be less generous than in the Baily-Chetty framework iff an increase in UI raises tightness.

4. In recessions, UI should be more generous than in the Baily-Chetty framework iff an increase in UI raises tightness.
5. This property has no implications for optimal UI.