**Krueger & Mueller (2009)**

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| **Question** | How unemployment benefits affect job search intensity in the US with eligibility and time variation evidence. |
| **Context – data** | American Time Use Surveys (ATUS) from 2003-2007 period.  Infer UI eligibility from type of U. and previous job time status (UI eligible vs non eligible). |
| **Method(s)** | * job search equation: regress time allocated to job search on predicted wage, std residuals of wage equation by state, maximum weekly benefit amount (diff across states), dummy of U. group and time effect.   - predict wage and residual wage dispersion facing each job seeker: based on controls and state effect.  - standard deviation of residuals of wage equation by state = measure of potential wage offers distribution dispersion.   * Tobit (to account for mass of workers w. 0min of job search) & OLS regression: coef. on UI is significant for subsample of UI eligible *(no temp. layoff and employ<26 weeks)*, negative implied elasticity *(coef. /Variable average)* = elasticity to legislated max benefit. * Tobit & OLS with state average weekly benefit and instrumented by max benefit to capture elasticity to actual UI benefits.   > Krueger and Mueller (2008) estimate UI in US are 0.114 log pts lower than in EU.  IV-Tobit imply search time higher by 9min and 13min for 2SLS. Explains 40%-55% of US-EU difference. |
| **Main results** | * Time allocated to job search is inversely related to the maximum weekly benefit amount for UI eligible workers, with elasticity large enough (40-55%) to account for much of the gap observed between US and EU workers.   > Negative and significant relationship for UI eligible subsample.  > Positive (entitlement effect) for UI ineligible subgroup.  > Identification relies on cross-state variation and omitted state-level covariates could bias the regression (endogeneity of benefit variable).   * Liquidity constraints potentially have important impact on time dedicated to job search, through responsiveness to UI benefits:   > Alone vs access to secondary income source: coef. for UI is positive and insignificant for those with working partner whereas negative and significant elasticity for alone individuals.  > Unemployed with low annual household income are more responsive (stronger negative elasticity) compared to wealthier, though difference not statistically significant.  > Job seekers with access to financial resources tend to respond less to UI benefits.   * Consistent with Mortensen classical search model: job search intensity increases prior to benefit exhaustion for UI eligible workers & UI-ineligible time search profile is fairly flat. * Inconsistent with Mortensen: search effort appears to decline after exhaustion date for UI eligible. Possible explanation is discouragement after failing to find a job when they substantially increased search intensity prior to benefit exhaustion.   > Also, possible selection bias: those with longer Unemployment duration might remain in the sample due to unobserved heterogeneity in propensity to search. |