* **The effect of unemployment insurance sanctions on the transition rate from unemployment to employment**
  + Jaap H. Abbring, Gerard J. Van den Berg and Jan C. Van Ours, find that after correction for selectivity in the imposition of sanctions, sactions substantially raise individual re-employment rates.
  + Grubb (1999), sanctions are an important policy tool in many OECD countries.
  + Findings: re-employment rates are significantly and substantially raised by imposition of a sanction. Individual re-employment rates of males increse by 61% in the metal industry and by 36% in the banking sector. For females, these effects are 98% for the metal idustry and 85% for banking. Estimates on data in which the metal and banking industries are pooled with other industries suggest economy-wide sanction effects of 58% for males and 67% for females. As argued in the theoretical section, the effect of the imposition of a sanction can be thought of as being due to two changes on a deeper level….
* Productivity Gains From Unemployment Insurance
  + Acemoglu & Shimer (1999)

**Work incentives and Disincentives**

**Neoclassical theory** – unemployment benefits reduce the incentive to be re-employed as costs of unemployment decrease -> increase in unemployment rate, and an increase in unemployment duration

* + other effects:
    - prolonged unemployment can have a positive impact by leading to higher-paying work if claimants use the period of unemployment to select the best possible job
    - the negative effects of UI on reemployment are offset by effects of UI on labor market transitions other than the unemployment-to-employment transition or by spillover effects of laimants’ behavior on unemployed workers who do not receive benefits





Direct Effects of Unemployment Insurance on Claimants: Disincentives to Reemployment

* Theoretical studies have demonstrated that more generous benefits create an incentive for claimants to remain unemployed, and empirical studies have shown that UI does indeed tend to lengthen unemployment spells of claimants. Increases in either the amount of benefits or in the potential duration of benefits induce longer spells, but the magnitude of these effects is still uncertain. In this section, both the theory and empirical findings related to this effect are reviewed.

Other Effects of Unemployment Insurance

* Although it seems clear that UI tends to prolong the unemploment spells of claimants, its impact on the unemployment rate or on the proportion of the population that is employed is unclear. UI prolongs unemployment spells because it negatively affects the transition of UI claimants into jobs. While this particular consequence would tend to decrease employment at any given time, it could be offset by UI impacts on other labor market transitions. Furthermore, UI may have spillover effects on individuals who do not respond directly to UI but are nonetheless affected by the behavior of UI claimants.
* A closer look at this part!!!
* Martin (1996)
  + Typically replacement rates vary with the unemployment duration
* Stephen Nickell, Luca Nunziata and Wolfgang Ochel (Unemployment in the oecd since the 1960s what do we know? )
  + Distinguish between factors influencing equilibrium unemployment and, second, shocks which cause unemployment to deviate from equilibrium unemployment (demand shocks, productivity and other labour demand shocks and wage shocks.
    - Employment protection and employment taxes have a positive effect on unemployment (employment protection raises unemployment persistence. (10% point increase in total employment tax rate leads to around a 1% point rise in unemployment in the long run at average levels of co-ordination.
    - Benefit system: benefit levels have an important impact on unemployment as does benefit duration and their interaction.
    - TFP growth will generate temporary rises in unemployment
* Blanchard & Wolfers (1999)
  + The role of **Shocks (eg. TFP)** and institutions in the rise of european unemployment: the aggregate evidence
    - Literature (p 12): more generous insurance increases unemployment through two separate channels: The first, lower search intensity. The second is the effect on the bargained wage at a given rate of unemployment. Both combine to increase equilibrium unemployment duration, and, by implication, the unemployment rate. (the steady state unemployment rate is equal to unemployment duration times the flow into unemployment as a ratio to the labor force. Unemployment benefits increase duration, and leave the flow roughly unchanged, increasing the unemployment rate.
    - Table 1 : Time effects interacted with fixed institutions.
      * An adverse shock of 1% change in unemployment of the mean country has a 0.22% point effect on unemployment rate in country with lowest insurence, and 1.55% point effect in country with highest replacement rate
* Nickell & Layard (1999) Labor market institutions and economic performance
  + Table 15 p. 3053
    - Log unemployment rate (%) (20 OECD countries, 1983-1988 and 1989-1994)
      * Results for the replacement rate:
        + 0.013(3.4) – Total unemployment
        + 0.011 (1.3) – Longterm unemployment
        + 0.013(2.6) – Shortterm unemployment
      * another important feature of the benefit system is duration of entitlement. Longterm beneftis generate longterm unemployment. Of course, it can be argued that countries might introduce more generous benefit systems when unemployment is a serious problem so that in cross-country correlations, the causality runs from unemployment to benefits rather than the other way round. (note advantage of our model!!!). However, microeconometric evidence on the positive impact of benefit levels and entitlement duration on the duration of individual unemployment spells suggests that at least part of the observed cross-country correlation can be taken as such. Narendranathan et al., 1985; Meyer, 1990)
      * The impact of a relatively generous benefit system might be offset by suitable active measures to push the unemployed back to work. Such policies seem to work particularly well when allied to a relatively short duration of benefit entitlement, reducing longterm unemployment while alleviating the social distress that might be caused by simply discontinuing benefits without offering active assistance towards a job. Their effects are well summarized in OECD (1993, chapter 2), and their significant impact in reducing longterm unemployment is illustrated in column (2) of Table 15.

**The EEQ:**

Agent equalizes the expected present-value marginal flow benefti from the control across periods.

* See J.A. Porter 2007
  + Coefficient of relative pruence
* See dynan 1993 for coefficient of relative prudence

**The optimal UI level:**

* Davidson and Woodbury 1997, Hopenhayn and Nicolini 1997, Wang and Williamson 2002, Chetty 2008, Shimer and Werning 2008
* ***” UI yields benefits to recipients in the form of consumption-smoothing, which depend in turn on a worker’s degree of risk aversion (Gruber 1997), but UI also entails social costs because it creates disincentives to work (for a review of empirical estimates, see Decker 1997) ”***