# Model description

The focus of this model is to analyze the effect of a change in the regulation of the maximum level of income insurance a person can receive after unemployment. To do so, we utilize the features of a stock-flow consistent framework and build upon the existing empirical stock flow consistent model for Denmark developed by (xyz). We contribute to the work of (xyz) by endogenizing the maximum level of income insurance. The dynamics of the model should be able to explain the macroeconomic effects of the change in the political regulations of the maximum income insurance. The next section will focus on the central equations added to include the new dynamics.

## Labor market

One of the major additions to the labor market equations is the endogenization of the participation rate, the variables explaining the participation rate is the real-wage, compensations-rate, and the unemployment rate. The inclusion of the real-wage is set to capture the effect where a higher real-wage would be expected to increase the incentive for people outside the labor force to join it, and thereby raise their income (specificere hvad estimatet er I model, og sammenligne det med ADAM og andres?). The effect of the unemployment rate on participation is expected to be negative, as a rise in the unemployment rate would shrinking the labor force and create lower participation. In addition to these the compensations rate of income insurance is included; this follows the work of (ADAM) who includes it as the only explaining factor of the participation rate. Increasing the compensation rate is expected to result in a lower participation rate, as the incentive to work would decrease with higher unemployment benefits relative to the wage.

Equation1

The compensation rate included in the equation for participation also appear as an endogenous variable in the model. Estimated as the fraction of the average amount an unemployed on income insurance would receive (dp\_person), to the average wage received given employment.



To calculate dp\_person we use a regression linking the maximum level of income insurance to the average benefits received by unemployed eligible for income insurance. This is done as an alternative to using aggregated data of benefits received by households to unemployed, as the gab between observed unemployment and estimated unemployment in the model is large. Creating a lower average of benefits received. A benefit of using this regression is we both capture the direct effect of an increased level of maximum income insurance, (estimated vil dog være biased, da en stigning I lønnen hæver den maximale dagpenge sats, men også samtidig vil hæve det gennemsnitlige beløb modtaget af arbejdsløse på dagpenge + hæve det gennemsnitlige beløb da folk da nu komme på dagpenge og ikke ramme den makismale dagpenge sats også oplever en stigning I lønnen (dog mindre end stigningen for folk der rammer den maximale dagpenge sats) Derfor forventes estimatet at vælre under 1.) The coefficient of the regression states that an increase in the maximum level of income insurance of 1% increases dp\_person by 0.95%.