

# **Quiz on Unemployment Insurance**

Pascal Michaillat

### Question 1

Unemployment insurance (UI) may affect the behavior of both firms and workers. When UI becomes more generous, how do firms modify their behavior?

- A) Firms that bargain wages with workers end up paying lower wages.
- B) Firms that bargain wages with workers end up paying higher wages.
- C) Firms become more selective when they hire workers.
- D) Firms become less selective when they hire workers.
- E) Firms are not affected by UI.

### Question 2

UI may affect the behavior of both firms and workers. When UI becomes more generous, how do workers modify their behavior?

- A) Workers are more likely to exit the labor force.
- B) Workers are more likely to enter the labor force.
- C) Workers search more intensely for jobs.
- D) Workers search less intensely for jobs.
- E) Workers are not affected by UI.

### Question 3

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?

- A)  $\max_e (1 - e \times f) \times v(c) + e \times f \times v(b) - k(e)$

- B)  $\max_{e,b,c} e \times f \times v(c) + (1 - e \times f) \times v(b) - k(e)$
- C)  $\max_e e \times f \times v(c) + (1 - e \times f) \times v(b) - k(e)$
- D)  $\max_e e \times f \times (v(c) - k(e))$
- E)  $\max_e e \times f \times (v(c) + v(b) - k(e))$

#### Question 4

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

- A) The search effort does not change, because it is only determined by unemployment benefits.
- B) The search effort might decrease or increase, depending on the slope of  $k(e)$ .
- C) The search effort might decrease or increase, depending on the slope of  $v(c)$ .
- D) The search effort always decreases.
- E) The search effort always increases.

#### Question 5

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

- A) No, except if UI has no effect on labor market tightness.
- B) Yes, except if UI has no effect on labor market tightness.
- C) Yes, except if labor market tightness is inefficiently high.
- D) Yes, except if labor market tightness is inefficiently low.
- E) No, it is never optimal.
- F) Yes, it always optimal.

**Question 6**

Labor market tightness is inefficiently low in recessions. What does this property implies for the generosity of UI?

- A) UI should be less generous than in the Baily-Chetty framework in recessions.
- B) UI should be more generous than in the Baily-Chetty framework in recessions.
- C) In recessions, UI should be less generous than in the Baily-Chetty framework iff an increase in UI raises tightness.
- D) In recessions, UI should be more generous than in the Baily-Chetty framework iff an increase in UI raises tightness.
- E) This property has no implications for optimal UI.

**Question 7**

In the United States, what happens to the generosity of the UI system in recessions?

- A) It remains the same.
- B) It decreases automatically.
- C) It increases automatically.
- D) It increases only when new legislation is passed.
- E) It decreases only when new legislation is passed.