Quiz on Efficient Unemployment and Unemployment Gap

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Question 1

From a social perspective, what are the costs of lowering unemployment?

A) Lowering unemployment increases the number of people who are out of the labor force.

B) Lowering unemployment increases the share of workers who are devoted to recruiting.

C) Lowering unemployment increases the share of workers who are devoted to producing.

D) Lowering unemployment reduces the wage of employed workers.

E) Lowering unemployment raises the wage that firms must pay their employees.

F) Lowering unemployment has no social cost so it is efficient to bring unemployment all the way to 0%.

Question 2

From a social perspective, what are the costs of raising unemployment?

A) Raising unemployment lowers the number of people who are out of the labor force.

B) Raising unemployment increases the number of workers who are devoted to recruiting.

C) Raising unemployment lowers the number of workers who are employed.

D) Raising unemployment reduces the wage of employed workers.

E) Raising unemployment lowers inflation below the 2% target.

Question 3

Under which condition is the unemployment rate efficient in a matching model?

A) For any wage mechanism.

B) If wages are rigid enough.

C) If wages are determined by Nash bargaining.

D) If wages are determined by Nash bargaining and satisfy the Hosios condition.

E) There is no wage mechanism that ensures efficiency.

Question 4

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?

A) $\theta = (1 - \zeta)/\kappa$

B) $\theta = [(1 - \zeta)\kappa]/\epsilon$

C) $\theta = [(1 - \zeta)\epsilon]/\kappa$

D) $\theta = \beta$, where β is workers' bargaining power

E) $\theta = (1 - \zeta)/(\kappa\epsilon)$

F) $\theta = (\kappa\epsilon)/(1 - \zeta)$

G) None of the above

Question 5

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

A) The unemployment gap is always about zero.

B) The unemployment gap is generally positive and sharply procyclical.

C) The unemployment gap is generally negative and sharply procyclical.

D) The unemployment gap is generally positive and sharply countercyclical.

E) The unemployment gap is generally negative and sharply countercyclical.

F) It is not possible to measure the unemployment gap.

Question 6

Given the social costs and benefits of unemployment, would it be optimal for the government to bring the unemployment rate all the way to 0%?

A) In general yes; but no if the social value of unemployment is zero

B) In general no; but yes if recruiting costs are zero

C) Always no

D) Always yes

E) In general no; but yes if the social value of unemployment is zero

Question 7

According to the work of Hosios (1990), which condition must be satisfied for the labor market to operate efficiently?

A) $\beta = \eta$, where β is workers' bargaining power and η is the elasticity of the matching function with respect to unemployment.

B) $\beta = 1 - \eta$, where β is workers' bargaining power and $1 - \eta$ is the elasticity of the matching function with respect to vacancies.

C) $\theta = 1$, where θ is the labor market tightness.

D) The surplus received by firms = the surplus received by workers.

E) None of the above.