# Quiz on Unemployment Insurance

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**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) $\max_{e} e \times f \times (v(c) + v(b) - k(e))$

F) None of the above

**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.

**Question 8**

Consider a matching model with job rationing. What happens over the business cycle?

A) In bad times, rationing unemployment is high but frictional unemployment is low.

B) In bad times, rationing unemployment is low but frictional unemployment is high.

C) In bad times, both rationing unemployment and frictional unemployment are high.

D) An increase in public employment has a larger effect on total employment in bad times than in good times.

E) An increase in public employment has a larger effect on total employment in good times than in bad times.

F) Optimal unemployment insurance is more generous in bad times than in good times.

G) Optimal unemployment insurance is more generous in good times than in bad times.

H) The labor market always operate efficiently so policies do not need to be adjusted over the business cycle.